INDIA AND INTERNATIONAL CURRENCY PLANS.

BY

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S. CHAND & Co.,

DELHI.

PRINTED BY B. R. SARDANA
AT THE CAMBRIDGE PRINTING WORKS
DELHI.

Preface to the First Edition.

The following pages presuppose on the part of the reader acquaintance with the text of various schemes which aim at the creation of an international currency organisation. These are now being discussed all over the world ; and this brief volume is an attempt to view the question not only from an international but also from the Indian angle.

I am indebted to the Editor of 'Commerce,' the Bombay Financial Weekly, for permission to reproduce three articles on the subject contributed by me to that journal.

UNIVERSITY OF DELHI.

12th October, 1943. V. K. R. V. RAO.

Preface to the Second Edition.

The following pages contain a revised edition of the brochure which was first published in October 1943. Much water has since flowed by the banks of the Jumna, and what appeared almost impossible at that time *viz.*, a comprehensive plan acceptable both to the U. K. and U. S. A. experts has now been achieved; and the Joint Plan prepared jointly by the Anglo-American experts now holds the field. I have, therefore, added a chapter dealing with the proposed international monetary fund, comparing its provisions with those of the previous plans, and indicating the changes which are still necessary from the Indian standpoint. The final chapter on 'conclusion' has also been revised in the light of the joint plan and my reactions thereto. Some of the other chapters have also been revised, but this has been done mainly with a view to giving a clearer exposition of the problem and a more comprehensive analysis of the issues involved.

As I write these lines, a conference is in progress at Breton Woods on the joint plan for the creation of an International Monetary Fund , and India is represented by a strong delegation which includes two non-officials of eminence. The point of view expounded in the following pages has more or less been accepted by non-official opinion in India, and is also largely acceptable to Government as evidenced by the speeches of a number of Members of the Viceroy's Executive Council. I have no doubt that the Indian delegation will pull as one team at Breton Woods, and will place in the forefront of their demands the inclusion of the liquidation of war-time balances among the objectives of the I. M. F. Whether they will secure the assent of the other delegations, particularly that of the U. K., to their proposal is more than I can say. But I trust that they will do so not only in the interests of international harmony and good will but also that of the expansion of world trade and world economy and the securing of world employment.

The interest-displayed in the first edition of the brochure is an indication of the keen interest which the International Currency Plans have roused in India, and the growing international mindedness of the Indian public If the second and revised edition will help to maintain that interest and focuss attention on one important aspect of India's post-war international economic relations, I shall deem my labour amply rewarded.

In response to the request of many readers of the first edition, I have included in the present edition the text of the different plans as appendices. This will also help to bring together the various international currency plans in one place and make it a useful book of reference for students of currency history.

University of Delhi.
30th June 1944.

V. K. R. V. RAO.

Just as the final proof of this book were passed, the Breton Woods Conference had concluded its deliberations and a summary of the conclusions reached therein had become available in India. I have therefore thought it fit to include an additional chapter on "The Breton Woods Conference and After." As full details of the conclusions reached in this conference are not yet available, it has not been possible to discuss them in any detail. I hope to do this in case the reading public gives me an opportunity to bring out third edition of this book. In the meanwhile, it is sufficient to state here that the Indian delegation at Breton Woods did pull as one team, but that inspite of it, they did not succeed in getting the conference to accept the major demand set out in this book, *viz.*, that of the inclusion of the liquidation of war-time balances within the scope of the International Monetary Fund. Nor has the conference conceded India's claim to a permanent seat on the Executive Committee of the Fund. Whether the Indian legislature should, under these circumstances, accept India's participation in the Fund, is a question I have discussed in the final chapter. I have also discussed in the same chapter the main provisions of the proposed International Bank and their bearing in determining India's attitude. My conclusion is that, in spite of the disappointment that India has undoubtedly suffered by the rejection of the major demands of the Indian delegation at Breton Woods we should accept membership of both the International Monetary Fund and the International Bank. For a brief exposition of the reasons underlying this conclusion, the interested reader is referred to the last chapter.

UNIVERSITY OF DELHI.

30th June 1944. V. K. R. V. RAO.

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CHAPTER I

THE INTERNATIONAL CURRENCY PROBLEM.

Before proceeding to consider the Anglo-American Currency Plans, it is desirable to say something about the nature of the problem which these plans are intended to tackle. What is the international currency problem ? How has it been dealt with in the past ? What additional complications is the post-war period likely to produce ? Unless we say something about these questions, it would be difficult to arrive at any informed judgment about the proposed international currency plans which are being discussed in so many parts of the world today.

To begin with, the pre-war period can roughly be described as the period of the rethronement and dethronement of the gold standard. Before the last war of 1914-18, the major countries in the world had gold coins in circulation and a fixed exchange value of their currencies in terms of gold. The war resulted in a loss of gold by a number of belligerent powers and a widespread inflation of their domestic currencies. With the termination of war, exchange controls were relaxed and the exchange value of most

currencies proved to have depreciated in terms of gold, and of the dollar which was still based on gold. International monetary conferences were held and it was generally agreed that attempts should be made to return to the gold standard but without gold currency in circulation. The gold exchange standard thus became an accepted and recognised variant of the old gold standard; and England led the way by returning to the gold standard at the pre-war rate (but without gold currency) in 1925*. Other countries followed suit after undergoing somewhat more painful monetary experiences and by 1928, most of the major countries had returned to the gold standard. And yet within less than 5 years from that date, most of the world had gone off the gold standard; and before the outbreak of the present war, the gold standard had been effectively dethroned from the position it had regained with such painful effort after the last war.

The reasons for this failure of the international gold standard in the pre-war period constituted the pre-war monetary problem. And it is necessary to inquire into this failure in order to know what sort of difficulties are going to face the post-war world in its attempt to have an international currency plan.

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*The variant adopted by England was the gold bullion standard.

The essential feature of gold standard is the stability of the exchange values of national currencies in terms of gold. This meant that there were two sets of influences affecting its working *viz.*—

(1) influences emanating from the side of gold as such,

(2) influences emanating from the manner in which the nations concerned worked the gold standard and in particular, provided the necessary economic conditions for its successful working These came to be known in current discussion as rules of the gold standard game.

The former had caused inflation in the early days of the gold standard ; in the pre-war period, it was feared that supplies of gold available for monetary purposes would be insufficient and that this may result in a general deflation of currency and of prices. The demonetisation of gold for internal purposes, the adoption of gold exchange standard, the centralisation of national monetary gold reserves, the wider adoption of the proportional reserve system and the provision made for reducing the proportion of gold, all these were devices adopted to make a small supply go a long way in meeting larger requirements and there is no doubt that they did help in securing that object. In fact, I don't think it can be said that influences emanating from gold as such had much to do with the failure of the gold standard in the pre-war period.

The manner in which the gold standard was worked cannot be held equally free from blame. Stability of exchange is fundamentally linked with equilibrium in the balance of payments. Now it always happened that some countries were having a favourable balance of trade, and others an adverse balance of trade ; those with adverse balances tried to set things right by stimulating their exports and diminishing their imports ; they increased exports by export subsidies, bilateral and empire trade treaties providing for preferential tariffs, blocked balances, and exchange depreciation ; and they diminished imports by quotas, exchange depreciation, and increase of tariff duties. The countries which had favourable balances did not co-operate by decreasing their exports and increasing their imports. On the contrary, they also retorted in kind, and attempted to keep up their level of exports and keep down that of imports. The result was a contraction in the volume of international trade without any restoration of equilibrium in the balances of payments. The deficit (on trade account) countries were compelled to export gold, but the gold movement was not permitted to have its normal compensatory effect because the countries importing gold did not expand their currency and bring about a rise in domestic prices and incomes; while those exporting gold did not

decrease their currency and effect a fall in their domestic prices and incomes. Nor were the creditor countries willing to lend to the debtor countries to the extent of their trade deficits. The result was a steady one way flow of gold traffic. Naturally, the debtor countries began to look anxiously to their gold reserves, and put up the rate of interest to prevent its flow abroad. This in turn led to a slowing down of investment activity and therefore to unemployment, and fall in incomes and prices, in short resulted in a slump; and by a cumulative process, it spread round the world and led to a world depression. And ultimately, everybody went off the gold standard either to mitigate the slump or to prevent the slump reaching them and to fight for their share of the narrowed world market. Such exchange instability also retarded the free flow of foreign investment and therefore the growth of output, income and world trade. Finally, the pre-war period was conspicuous for the rapid movements of short-term capital from country to country leaving exchange instability in their wake.

To sum up, the international monetary problem is really that of the maintenance of the values of national currencies in an international unit. If this is done, it will promote international investment and international trade and thereby lead to international

economic well being. The difficulties in the way of maintaining this stability of the exchange value of national currencies are

(1) the special influences to which the stability of the international unit itself in terms of purchasing power may be subject due to the supply conditions of the article constituting the international unit,

(2) the unwillingness of surplus countries to liquidate their surpluses either by increasing imports or by foreign lending,

(3) the unwillingness of deficit countries to liquidate their deficits by reducing their imports,

(4) the unwillingness of creditor countries to receive either interest or return of capital in the form of goods,

(5) the unwillingness of countries importing or exporting gold to let this fact have its normal reaction on currency and prices in the countries concerned.

As long as these tendencies persist unilateral changes in exchange rates are bound to continue and the international monetary problem will still remain with us. The position in the post-war period is likely to be further complicated by the emergence of abnormal balances, *i.e.* large amounts of short-term indebtedness on the part of certain countries which would obviously be unable to discharge these obligations in a short-period*. Unless some provision is made for the gradual liquidation of these balances,

*I take no account here of reparation payments that may be imposed on the defeated enemy countries

it would be impossible for any international currency plan to function in the immediate post-war period.

It will be seen therefore that the international monetary problem is not a purely currency problem, but involves questions of trade policy, domestic monetary policy and international investments. These questions, in turn, relate to national economic policies which are decided by the nature of the country's economy and the stage of development which it has reached. This is where the trouble arises, for the economic development of different countries in the world is unequal and their pace uneven. Thus *e.g.* backward economies like India and China have a lot of leeway to make up in the industrialisation of their countries; and it is not reasonable to expect them to look with favour on an import of goods that will compete with their infant industries and hinder their economic development. Then again agricultural countries have found by experience that exchange stability exposes their economies to the immediate blast of an outside slump and leads to a fall in their prices much below that in the more orgnised industrial countries; they are therefore unwilling to look with favour on a policy of rigid exchange stability.

Then again, it is rather unreasonable to expect countries whose domestic trade is far more important

than their foreign trade not to regard stability of domestic prices rather than of exchange as their primary monetary objective. This would be particularly relevent now, because the internal price levels in different countries have not moved in step during the war and this is especially true of countries like India and China Moreover, it is a matter of internal currency policy to determine the post-war trends in internal price levels and a fixed exchange rate would make the execution of such internal currency plans exceedingly difficult. Finally a number of countries, especially India and China have on their immediate post-war anvil vast schemes for capital expenditure and public works ; it would be difficult to execute these plans if simultaneously the countries concerned have to maintain fixed rates of exchange. In short, rigidity of exchange rates is unsuited to a world, the units of which require different tempos of economic development and any international currency organisation would do well to give member countries a measure of freedom to have flexible exchanges, the range of variation being of course limited to an agreed reasonable margin.

It is also necessary to emphasise that the stability of the international value of national currencies will depend a good deal upon the initial rates selected

for maintenance. In the case of some countries like India, this is a subject of long historical controversy and the present rate cannot be regarded as having the seal of public approval. Even apart from this, in the case of India as well as of other countries it is very difficult to know in advance the reactions of the war period on their post-war economies; and it will be almost impossible for these countries to commit themselves in the immediate post-war period to an exchange rate that they will be prepared to maintain in the long period. Rather than expose the whole scheme to the risk of substantial changes in the international value of national currencies it would be more sensible to regard the initial rates as provisional and leave it to member countries to suggest their permanent rates within a period of 5 years after the termination of war.

When all this is said, it must also be added that participation in international trade implies certain obligations on the participant countries. Thus, *e.g.* no country can expect to go on exporting without being ready to receive payment in imports; and *Vice-versa*. Whether this can be done without injury to national economy in the absence of some form of governmental control of foreign trade is perhaps a matter of controversy. But it is not open

to doubt that, whatever be the machinery adopted, the responsibility must rest upon the governments of the countries concerned to see that

(1) a current trade surplus is liquidated by an increase of imports or a decrease of exports or a repatriation of foreign debt or by foreign lending.

(2) a current trade deficit is liquidated by an increase of exports or a decrease of imports or by a sale of foreign investments or by foreign borrowing.

It must be emphasised moreover that current trade deficits and surpluses must be clearly distinguished from deficits and surpluses resulting from movement of capital and payments and receipts of interest and profits on capital, and it is better to use the expressions debtor and creditor countries for the latter *i.e.* to express the net state of indebtedness or the balance on capital account.

International trade also imposes certain obligations on the creditor and debtor countries. In particular, no country should lend abroad unless it fulfils the following conditions:

Conversely countries having genuine trade surpluses should be permitted to utilise them for repayment of foreign debt before they are called upon to take steps to liquidate their surpluses; and countries having trade deficits should have the obligation to sell their foreign investments before special

concessions are shown to their exports by other countries.

These obligations are a part of international trade and have to be assumed by countries entering into trade relations with one another. It may be added that whether these steps are taken voluntarily or not sooner or later, such steps or variations of the same will be forced upon the countries concerned because disequilibrium in the balance of payments cannot continue indefinitely. But the economic consequences of these measures will differ vastly according as they are undertaken voluntarily and with mutual understanding or they are forced upon national economies by force of economic disequilibria. It will obviously be much better if these steps are taken voluntarily; for then there will be no widening waves of high interest rates, low prices, low incomes and increasing unemployment; mutual understanding will exist among different nations; they will give each other time for readjustment of their economies to the altered equilibrium position in their international trade; and this is likely to result in the least contraction of world trade and world employment. Above all, there will be less likelihood of the pursuit of national economic interests turning into international economic warfare. For securing

this alone it wonld be worth while striving for international understanding and cooperation on the currency question.

To sum up, the international monetary problem is the securing of the stability of the international value of national currencies in an international unit in such manner as will lead to world prosperity and promote world employment. This was sought to be achieved by the gold standard, worked autonomously by individual nations. It failed in its objective, because certain fundamental conditions necessary for its success were not secured; and it is fairly clear that these conditions cannot be secured except by mutual agreement and understanding. In other words, an international working organisation is necessary if the international currency problem is to be solved; and this will be even more necessary in the post-war period owing to the emergence of abnormal balances, and fundamental changes induced by war in the domestic economies of most nations. It is clear therefore that the international currency problem can no more be left to the automatic working of individual national currencies; management, at least consultation and mutual understanding, is necessary if the post-war world is to see stability in the international value of national

currencies. Hence it is that experts in England, America and Canada have put forward schemes for the formation of an international currency organisation which will help to maintain the stability of international currency values without resulting in mutual economic distress and thus solve the international monetary problem.

In the following pages we discuss briefly the salient features of the British, American and Canadian Plans and their bearing on India's post-war currency requirements. We then suggest certain modifications, in the light of our analysis of the requirements of the international monetary position and in particular of India's post-war currency needs.

CHAPTER II

.THE ANGLO-AMERICAN CURRENCY PLANS.

A CRITICAL REVIEW.

Both the British and American Plans aim at the creation of an international currency unit into which all the currencies cf the world would be freely exchangeable. The American designation of the international unit is *unitas*: the British use the expression *bancor*. Both *unitas* and *bancor* have a defined value in gold and in national currencies; and member countries undertake not to buy or sell gold in terms of gold at rates not consistent with these parties. The American Plan is more rigid in the sense that the value of national currencies in *unitas*. and that of *unitas* in gold, once determined, cannot be changed; the British Plan is less rigid in that the value of national currencies in terms of *Bancor* can be lowered to the extent of 5% and that of *Bancor* in terms of gold altered by a given majority vote of the international organisation. Whether rigidity or flexibility is preferable in the gold value of the international unit turns entirely upon public confidence in the ability and honesty of the international authority.

If what is required is a "fool-proof and knave-proof" international unit, a rigid link with gold is preferable ; but rigidity has its price ; and perhaps the world has suffered too much from the price to be paid for rigidity in gold to be prepared to suffer it any further.

Apart from this difference in the rigidity of the link with gold, the international units put forward by the British and American experts are differently conceived in fundamentals. The British *bancor* is really a unit of account ; and the international authority, styled the International Clearing Union starts with no solid assets of any kind whatsoever ; its credit side is made up of favourable balances on income account of member countries ; its debit side is made up of unfavourable balances on income account of member countries; and as these surpluses and deficits equal one another, its credits and debits offset one another and presumably leave the authority in a solvent position. The only danger is that in the event of default, there is no automatic offsetting hold which the international authority has on the resources of the defaulting country ; "sanctions" of course is there, but past history has shown that this is no effective instrument for the enforcement of international obligations. As against

this, the American Plan envisages the international authority starting with independent assets, each member country subscribing a specific amount to be called its quota ; the initial payment to be 50% of the quota, 12·5% in gold. 12·5% in local currency and 25% in its own securities. The quotas will be determined on the basis of each country's holdings of gold and foreign exchanges, the magnitude of the fluctuations in its balance of international payments, and its national income. The international authority will thus possess a concrete hold on member countries which presumably will serve as a deterent to any tendency to default on their part.

The main functions of the international authority is similarly conceived in both the Plans ; and that is to give deficit countries time to adjust their accounts if their deficit is likely to prove to be of a temporary character and not force them to pay up immediately with all the attendant unpleasant consequences both on their economies and on those of the countries with whom they have the unfavourable balance ; in cases where the deficit is likely to persist because of a basic disequilibrium, the idea under both the organisations is to give time to the countries concerned to adjust their economies to the new equilibrium position and advise them on the measures necessary for the purpose such as will not

lead to economic blizzards both in their own regions and in the world outside. This will be done by loans by the international authority by which debtor countries can temporarily meet their adverse balances of payments without having to export gold or resort to deflationary measures: this automatically results in an involuntary lending by the creditor country to the debtor country but as the transaction will be between the international authority and the debtor country, there will be no special obligation on its part to the individual creditor country. But the extent of the accommodation provided and the nature of the security against which it is provided differ in the two Plans. Under the American Plan, the Fund's holdings of a country's local currency cannot normally exceed its quota ; the quotas of all countries taken together are not to exceed 5,000 million dollars and individual quotas will be determined on the basis already described. Advances above 100% of an individual country's quota but upto 200 per cent. can be made only against a special reserve deposited with the Fund. Above 200 per cent., the Fund will ask for suitable changes in the internal economy of the debtor country. It will be recalled that against the quotas themselves, member countries have to deposit 50% wlth the international authority, 12½% in

gold, $12\frac{1}{2}\%$ in their local currencies and 25% in their own securities. Under the British Plan the quota has not got against it any prior deposit by the member countries with the international authority. The quota in this case is fixed on the basis of 75% of the value of pre-war imports *plus* exports for each member country; and provision is made for the annual revision of these quotas after the transitional period in accordance with the running average of their actual volume of trade in three preceding years rising to five-year average when figures for five post-war years are available. Advances to debtors can be made up to 25 per cent. of quota without any conditions, and above 25% but below 50 per cent. of quota with the freedom given to the debtor country to depreciate its exchange by 5 per cent. It is only when the advances exceed 50 per cent. of quota that deposit of suitable collateral will be required. It seems clear that the British Plan is more liberal with debtors than the American Plan and does not provide for sufficient safe-guards for creditors.

Both the Plans provide for the conversion of individual surpluses into the international currency unit; thus, it may be said to relieve the creditor from the fear of blocked balances in the debtor countries and permit him to buy in the world

market. The American Plan, however, places definite limits on the convertibility of the international unit into any individual currency. Thus *e.g.*, conversion of *Unitas* by member countries into dollars will be limited by the Fund's holding of dollars, and if the demand for dollars is greater than the supply of dollars, it provides for rationing of the scarce currency. In other words, under the American Plan, the creditor cannot freely utilise his surpluses to purchase in the world market; he is most free to purchase in the country which is his debtor and less freely in other countries, depending upon the supplies of their currencies, in other words, on their import surpluses. That is, no creditor country can normally expend its credits in another creditor country, except to the extent of the currency of the latter deposited against its quota with the international authority. The British Plan lays down no such restrictions; under it, the creditor is free to spend his balances anywhere he likes. This is theoretically more attractive, but in practice, it will lead to difficulties. Thus *e. g.*, countries may prefer to buy from one which is already a creditor and pay in terms of international currency units; and the country from which purchases are made will be finding itself a bigger creditor than it desires to be, unless it imposes restrictions on its exports; in

other words, creditor countries may try to transfer to others their task of short-term lending; and one or two countries may find themselves financing the short-period requirements of the rest of the world. This will serve to shift responsibility from individual creditors and may thus lead to the breakdown of the whole system.

Both the Plans agree in setting a limit to the extent to which accommodation is given to debtor countries by the international authority though the limits suggested in each Plan are determined on different bases and are different in size. Both of them impose progressive restrictions on the debtor country with the increasing size of its debt to the international authority; and at a particular stage—over 200% of quota in the American Plan and over 50% of the quota in the British Plan (the quotas do not mean the same thing in the two Plans)—both of them contemplate semi-mandatory instructions to the debtor countries to follow certain policies in respect of their internal economies. The American Plan leaves this vague by stating that the debtor country will have to "adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments", while the British Plan is more specific and states

that the Governing Board may require all or any of the following measures :—

(*i*) a stated reduction in the value of a member's currency, if it deems that to be the suitable remedy.

(*ii*) the control of outward capital transactions if not already in force.

(*iii*) the outright surrender of a suitable proportion of any separate gold or other liquid reserve in reduction of its debit balance.

The British Plan also provides for declaring a debtor country to be in default if its debts exceed 75% of its quota and no suitable measures are taken to reduce it; but nothing is said about how dues are to be recovered from the defaulting countries.

Regarding countries with persistent surpluses above a defined level, both the Plans provide for the tender of advise by the international authority for correcting the position. The American Plan merely states that the Fund shall render the country a report on the subject containing suggestions for the liquidation of its surplus, while the British Plan imposes on the international authority the duty to indicate what measures would be appropriate to restore the equilibrium of its international balances including—

(*a*) measures for the expansion of domestic credit and domestic demand.

(*b*) The appreciation of its local currency in terms of *bancor* or alternatively, the encouragement of an increase in money rates of earnings.
(*c*) The reduction of tariffs and other discouragements against imports.
(*d*) International development loans.

It is clear that the British Plan contemplates far reaching changes in internal economic policy in the case of countries which have either deficits or surpluses persisting and in excess of 50% of their quotas. The American Plan is more reticient on this subject, though in another place it indicates among the obligations arising from membership maintenance of stable exchanges, the abandonment of exchange restrictions, the adoptions of controls on capital movements, and the giving up of multiple currency practices. Evidently unlike in the British Plan, changes in foreign exchange in either an upward or a downard direction are not regarded in the American Plan as one of the acceptable methods for restoring equilibrium in international balances of payments. But there is no doubt that both the Plans contemplate the giving of advice, bordering on mandate to creditor and debtor countries for the readjustment of their economies to an equilibrium position, and this advice will affect internal economic policies. In fairness, however, it must be pointed out that such readjustment will take place anyhow, for

disequilibria in international balance of payments cannot persist indefinitely, while intervention by the international authority will make the readjustment easier, and less likely to evoke economic warfare and international ill-being. It is however, doubtful how far in practice it will be possible to enforce the advice of the international currency authority if it is mandatory while its practical effect is bound to be negligible if it is only recommendatory; and this would be particularly true when the countries in question happen to be major powers.

Both the Plans have been using the expression creditors and debtors purely in terms of current trade balances. This may, however, lead to member countries taking refuge under the new machinery to borrow short and lend long; or at any rate to retain their long term investments intact, obtaining interest on the same, and yet finance deficits by obtaining short-period credits without paying interest. It is a question for consideration whether all the long-period investments and debts of member countries—private as well as public—should not be brought into account in the books of the International Union and given their due weight in classing countries as debtors and creditors; otherwise, the scheme is one-sided and may do injustice to debtors with current surpluses. Before a creditor country

can rank as such before the Union, it would be fair to take into account its long-period debts; and before a debtor ranks as such before the Union, it should have its long-period credits taken into account. Only then will the scheme do justice to obligations arising from the past in addition to those arising from the present.

Both the Plans mention the problem of what are called war-time balances The American Plan provides for the purchase by the international authority of all abnormal war balances, provided these are in member countries on condition that "(*a*) the country selling abnormal war balances to the Fund agrees to transfer these balances to the Fund and re-purchase from the Fund 40% of them at the same price with gold or such free currencies as the Fund may wish to accept at the rate of 2% of the transferred balances each year for 20 year beginning not later than 3 years after the date of transfer and (*b*) the country in which the balances are held agrees to the transfer to the Fund of these balances and to repurchase from the Fund 40% of them at the same price with gold or such currencies as the Fund may wish to accept at the rate of 2% of the transferred balances each year for twenty years beginning not later than three years after the date of transfer. It is also provided that the

country selling the balances will be paid only in its own local currency and not in foreign exchange except to the extent of any deficit it may have on account of an adverse balance of payments. It is not clear how the Fund will acquire the local currencies required to purchase these balances if these exceed in amount the quota currency and import surpluses of the countries concerned; and the exact implications of the proposals are rather obscure, the only thing that is clear being that 40% of the balances will have to be spent in the country owing the balance during a period of 20 years. The British Plan appears more flexible in this respect, it being stated that "perhaps there should be some special over-riding provision for dealing with the transitional period only by which through the aid of the Clearing Union, such balances would remain liquid and convertible into *bancor* by the creditor country while there would be no corresponding strain on the *bancor* resources of the debtor country, or, at any rate, the resulting strain would be spread over a period.' But this would violate the fundamental principle underlying the British Plan which is the equality of credits and debits, unless the idea is that more *bancors* are created than are equal to current trade surpluses which would mean that a sort of compulsory in-

ternational loan is created by the international authority, Here again, the position is exceedingly obscure and cannot be understood without further elucidation.

There is another vital difference between the two Plans. The American Plan deprives the member countries of the freedom to indulge in exchange controls and multiple currency practices and expects them to hold all their reserves with the international authority and have their currencies linked only with the international unit. The British Plan gives freedom to member countries to belong to currency blocs like the sterling areas or the dollar area and would consequently permit them to hold a part of their foreign exchange reserves elsewhere than with the international authority "as, for example Australia and India with London or certain American countries with New York." This means a violation of the fundamental principle of the international currency organisation *viz*, that it will have the right to acquire *all* the trade surpluses of member countries in exchange for appropriate amounts of the international unit. In fact, not only will the existence of currrency *blocs* within the Union create difficulties, but the success of the scheme depends upon the adherence of the whole world to the international unit. This is particularly true of the British Plan

under which the international currency authority starts with no assets but the balancing equality of credits and debits. If some member countries having surpluses with other member countries, but deficits with non-member countries, insist upon payment in gold against their credits with the international authority, it will create a difficult situation especially, when, as under the British Plan, the international currency authority has no gold reserves of its own.

Another difference between the Plans is their relation to gold. Both of them link their proposed international currency units with gold, but the American link is rigid, while the British Plan provides for a change in the gold value of the *bancor* under defined circumstances. Both of them however, permit member countries to exchange their gold with the international unit, though there is no corresponding obligation on the part of the international authority to give gold in return for local currencies. The British Plan permits a measure of flexibility in the link between the local currency and the international unit and therefore with gold, while the American Plan makes this rigid. This flexibility in the link with gold is perhaps an attractive feature of the British Plan.

Then, again, the British proposal (para 39 (1)) to use this organisation to grant over-draft facilities in favour of international bodies for post-war relief, rehabilitation and reconstruction is full of dangerous potentialities for the backward and poor economies which may, nevertheless, be having favourable balances, and therefore, rank as creditors in the Union's books. In other words, the machinery of this new currency authority may be used to grant loans from the poor countries to the stricken countries, the rich countries standing aside because of their having unfavourable balances in their international trade. The share of different countries in financing post-war relief should turn upon their general economic strength and their standard of life and not upon their favourable or unfavourable balances of trade.

Finally, both the schemes seek to bring about a temporary short-period equilibrium in balances of payments by the international authority compulsorily borrowing from the creditor countries and lending to the debtor countries; the implications of this on terms of trade have not been clearly worked out. Does it not create a seller's market ? If so, is there not a danger of debtor countries refusing to reduce costs and pushing up their prices and thus force creditors to undergo an unfavourable alteration in their terms of

trade ? Moreover, will not the working of the scheme be vitally affected by the type of organisation that will control foreign trade in each member country ? Thus, *e.g.*, will not a state monopoly of foreign trade or a trust-cum-cartel control of foreign trade affect the terms on which goods will be exchanged between debtors and creditors ? In fact, is it possible for member countries to have freedom of trade or tariff policy consistently with adherence to an international currency unit ? These are all questions which need answering when an international currency authority is being sought to be created.

To sum up, in spite of differences in detail, the main objective behind the American and the British Plans is identical. They both contemplate the maintenance of stability of the exchange values of national currencies in terms of an international unit and hope to achieve it by providing countries which have current trade deficits with short-term credits and by undertaking to presuade both deficit and surplus countries to so re-arrange their economic policies including tariffs, investment and monetary policies as to bring about the restoration of equilibrium in their balances of payments. The American Plan places apparently more importance on the objective of stability while the British Plan is more

concerned with the means employed to achieve stability and is prepared to increase the size of the quotas and therefore of the basic credits to debtor countries if that is necessary to avoid the onset of deflationary influences. All this, however, is not what is normally understood by the expression *Clearing Union*, while the American expression *Stabilisation Fund* is a more correct description of the objective of that Plan. The British Plan contemplates the creation of a gigantic international organisation which will create credits for debtor countries, but will have no assets of its own; while the American Plan is modelled on the analogy of a more old-fashioned bank which lends to debtor countries but on strict terms and has withal solid assets against the loans it gives. No doubt, credit creation without assets is more attractive in this inflationist world; but one doubts very much if it will prove as attractive in the international sphere as it may in the national sphere, as creditors would be nationals of one country while debtors would be nationals of another. Orthodox banking may be out of date in an individual country, where ultimately credit and its cost impact upon the same common factor; but it may have much to commend it in the international realm where credits and its cost fall on different countries so long as the world has not reached a stage when each nation regards the other as its brother and is willing to share its earthly goods with it.

CHAPTER III.

INDIA'S POST-WAR NEEDS.

As we have already seen, the Anglo-American Currency Plans have both the object of easing matters for countries having current trade deficits with a view to giving them time to re-adjust their economy without exercising deflationist pressure on the rest of the world; and they both also envisage action being taken by the creditor countries either to reduce their exports or to increase their imports. Accordingly they both also contemplate fixation of national exchange rates in terms of an international unit of account linked to gold, though in this respect the British plan is less rigid than the American.

As far as India is concerned it should be pointed out at the outset that she is normally a creditor country on current trade account. If we take the first 42 years of this century with the exception of 3 years, India has always had a favourable balance of trade. If we take the last pre-war period *viz.* 1919-20 to 1938-39, the annual average of her balance of trade in merchandise during these twenty years has been *plus* 52 crores. But this persistent favourable balance on the part of India has not led

to her exercising a deflationist pressure on the world economy. This was because (1) she had to pay in goods for the banking, shipping, administrative and other services she imported and (2) she had to make payments as return on the foreign capital invested in her economy. The result was that usually her balance of payments attained équilibrium without depriving the Central Banks of the world of their stocks of monetary gold and thereby causing deflation. The war however, has witnessed certain developments which may alter the situation. First of all, India's repatriation of her sterling debt has reduced very substantially the payments she has to make as return on foreign capital. Secondly, the political developments arising out of the war and the proposed commutation of her sterling pensions are further likely to reduce her invisible import of services for which she had hitherto to pay in goods Thirdly, the war has not led to the invention of substitutes nor to any substantial increase in the world supply of the principal commodities in which she has an export interest *viz.* tea, jute, oilseeds. It is likely therefore that, *ceteris paribus*, her favourable balance of trade will not only continue but also turn into a favourable balance of payments : in other words, India is likely to become what the Anglo- American Plans term a creditor country in the

post-war world. Under the Anglo-American Plans therefore she will be charged with the special duty of liquidating her favourable balance of payments by reducing her balance of trade in merchandise; though in this respect her obligations under the British Plan are more rigid than under the American Plan. This will mean that India should be prepared to increase her imports of foreign merchandise to the extent necessary to liquidate her favourable balance of payments; in the alternative, she should be ready to lend to other countries amounts equal to this credit balance. Theoretically no creditor country can object to these alternatives. In practice however, it is fairly obvious that the second alternative should be out of the question for India, as long as her own internal capital requirements are not satisfied; and looking to the poverty of India and the immensity of the capital programme required to raise her to the level of other countries, it will be a long time before India can have any genuine surplus of capital to export. In effect, therefore, if India is to continue as a creditor country, she should be prepared to liquidate her credit balance by importing more goods. Whether it is desirable to do so or not will turn upon what kind of goods are to be imported. There are certain kinds of goods, mainly capital goods, which India will require in the task of

industrialisation ; and if these goods are made available to her, then there should be no objection. But it is necessary that she should have the freedom to buy these goods where she likes and at competitive prices. It will not be profitable for her to be supplied obsolete machinery or machinery at exorbitant prices simply because she has a credit balance. At the same time, she will not be prepared to accept payment in consumer goods that will compete with domestic industries and cause dislocation in her internal economy. The only alternative will be for her to curtail her exports ; and it will be far more profitable for her to adopt this alternative than to obtain payment either in obsolete capital goods or competitive consumption goods. To the extent that she will resort to reduction of exports in order to equalise her balance of payments, it will be in accordance with the terms of either the British or the American post-war currency Plan, but it will certainly not help to fulfil the objective behind the two Plans *viz.* the expansion of international trade. But that is no reason why India must export in order to be paid for in goods she does not want, and in the absence of an international commodity acceptable in its own right, she will have no alternative but to reduce her exports. If international trade is to be expanded, it cannot be done by insist-

ing, as the British and American Plans do, on a compulsory equalisation of exports and imports by expansion of imports against an excess of exports True, compulsory equalisation of exports and imports is a condition of all international trade, whether big or small; but for expanding international trade, debtors must sell what the creditors want and not dump on them what they do not desire to purchase.

Another post-war requirement of India which will have to be taken into account in deciding the question of her adherence to any international currency plan is the freedom to have a tariff policy that will promote the speedy industrialisation of the country. It is well known that the greatest need of India for the purpose of raising her national income and realising her economic potentialities is industrialisation. Because India has lagged behind in the industrial race, she cannot get industrialised now without the help of protective tariffs. If adherence to the international currency organisation is going to mean that she must not raise her tariff walls then it will also mean that her economy becomes static and she will be unable to raise her national output and income to the levels of industrial countries like England and the U.S.A. That is not a position which will be acceptable to any

section of Indian public opinion. India will therefore have to reserve to herself full freedom to determine her own tariff policy and cannot allow that to be modulated in accordance with the interests of a few highly industrialised countries with high incomes which nevertheless may have current trade deficits due either to their desire to have more imports than they can afford or to their inability or unwillingness to supply their poorer creditors with the goods that they require.

A third requirement of India in the currency field is the freedom not to have stability of exchange. India's currency history has been one long story of the forcible adjustment of her internal economy to the dogma of stability of exchange and the subordination of her domestic output, prices and incomes to the requirements of foreign trade and of foreign capital. The result has been that international slumps have always affected India to a greater extent than others because her agricultural economy is naturally less organised to meet it and the protective use of exchange instability to secure insulation for her domestic economy has been denied to her. Given the choice, there is no doubt that India will be more inclined to have the freedom of a flexible exchange than the restrictions on her national economy implied by a stable exchange. This would not be

consistent with the American Plan which makes stability of exchange the cornerstone of its Stabilisation Fund; nor will it be consistent even with the British Plan which permits exchange depreciation only in the event of a debit balance in a country's foreign trade and, that too, only to a limited extent. Moreover, the present currency link with sterling is looked upon with disfavour by most sections of Indian public opinion, nor is there an acceptance of the present rate of exchange. In fact, by the very provisions of the Reserve Bank Act, the Reserve Bank of India is required to hold an inquiry into the whole question of the future of Indian currency and submit proposals to the Indian legislature. Under the circumstances, till the Reserve Bank has made this inquiry and the country has had time to form an opinion on its proposals, it would be most unwise for us* to commit ourselves to any currency plan which requires on our part a stable exchange policy; particularly if it is going to mean the continuance of the link with sterling and at its present rate.

Finally, there is the question of India's sterling balances. This has already reached a total of Rs. 943 crores and is steadily mounting week by week. If the war lasts for another year or two, it may well

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*As on 24th March 1944, Sterling securities in the Issue Department amounted to Rs. 780 crores and that in the Banking Department to Rs. 163 crores.

exceed a total of Rs, 1,200 crores. India is vitally interested in having the power to cash these balances when and where she likes. It may not be possible to withdraw this amount all at once but neither can India wait for period of 20 or 30 years for the process of withdrawal to be complete. It is possible to use these balances in the purchase of British goods provided the goods offered are what she wants and are available at competitive prices. From this point of view, neither the American nor the British Plan is likely to satisfy India's interests; moreover, neither of the Plans define what is meant by abnormal balanccs. Abnormal balances should only mean India's sterling balances acquired in return for her sale of goods and services to the British Government *minus* the amount represented by repatriated sterling securities, and payments to the British Government. This amount is considerably less than India's sterling balances, as the latter includes the favourable balance of trade of the country on private account during the last 4 years. Further in the case of India, her sales of supplies to the British Government have been in a sense forced sales as they were effected through the use of the currency mechanism and it is a moot point whether such a debtor should be given the advantage of treating such amounts as abnormal balances. It is neces-

sary therefore that there should be a clearcut definition of abrormal balances, and adequate provision should be made for the cashing of these balances within a reasonably short period, particularly for poor countries like India.

To sum up, India's post-war economic requirements involve the freedom to have a policy of flexible exchange, use of tariff walls to accelerate her industrial development, and speedy and effective utilisation of her sterling balances. All these will result in a currency policy which does not appear to be consistent with either the stability of exchange or the restrictions on tariff autonomy which are implied in both the British and American Currency Plans, Moreover, the whole subject of India's currency policy, particularly the linking of the rupee to sterling and the rate at which it is linked, is subject to review and recommendations by the Reserve Bank. Under the circumstances, it seems doubtful if it will be in India's interest at this stage to adhere to either the International Clearing Union or the Stabilisation Fund. But this does not mean that India should not take part in any international scheme for the settlement of the post-war currency problem. India should be prepared to give her due share in the task of international collaboration; but

she cannot do it in a manner fundamentally inconsistent with her own national interest. What part India can play consistently with this condition and what changes are necessary in the international currency plans to make them more acceptable to the backward economies like India will form the subject of the next chapter.

CHAPTER IV

THE ANGLO-AMERICAN CURRENCY PLANS.

SUGGESTED MODIFICATIONS.

There are several important considerations which our analysis has revealed as relevant in any international scheme for post-war currency reform ; and any plan, whether it be of American or British or any other origin, must take these into account if it is to be acceptable either to countries having normal surpluses on their current trade account like the U.S.A. or to backward economies like China and India which have still a long way to go in their task of industrial development or to agricultural countries like some of the South American or Asiatic States which have such unfavourable ratios of exchange in terms of real costs in their trade with the industrial economies.

The first condition of an acceptable currency plan is that the international authority should have behind it some solid assets. Either the scheme is based on an extension of the banking principle into the international field as the British Plan claims in which case borrowers should deposit assets with the international authority against the security of which they can get credits ; or it is a mere extension of the

clearing house principle into the international field in which case, there is either an equality of credits and debits against each country, or the countries with credit balances get credit accounts in an international Central Bank while simultaneously the countries with debit balances will have debited them against their accounts, these accounts having been created by their prior deposits in the form of gold or other securities with the international Central Bank. To suggest, as the British Plan does, that debtor countries should get overdrafts without depositing any assets *i.e.*, be granted unsecured loans, their size varying directly with that of their country's debits seems to be an inversion of the banking principle rather than its extension. It may be argued that banking means credit creation and personal overdrafts are one way of creating credit. But it must not be forgotten that banking did not begin with credit creation; and we are just commencing banking in the international field. Moreover, even within a country, a credit-creating bank does not start functioning without a prior possession of at least some assets. Moreover, the dangers incidental to such a scheme are greater than its application within a country would be, because while, within a country, there is the Government of the country that can enforce obligations, in the international

field there is no international police authority to enforce the obligations of debtor countries and even if there is, it would be difficult to enforce its authority against powerful defaulters. Under the circumstances, it is necessary that all participating members in any international currency union should deposit assets commensurate with their economic strength, and the facilities they get from this Union should be directly related with the size of their deposits. In this respect, the American Plan gives better security for the success of an international plan than the British one does, and as a country with a normal credit balance, India is vitally interested in this aspect of the question.

The next thing is to see that the international plan defines much more clearly than is done at present what is meant by the expressions creditor and debtor countries. Apparantly, the idea of having this distinction is based on the difficulty of effecting liquidation of the debt without deflationary consequences in the absence of a policy on the part of creditor countries in favour of imports of merchandise. But this difficulty does not arise in the case of countries which have overseas assets to dispose of; and as long as there are any such assets, it is not fair to the creditor that his payment should be postponed or that he should be asked to effect revisions of his

internal economic policy in favour of the debtor. The unfairness of this procedure towards creditors on current account is increased when the countries in question are debtors on capital account and have a part of their property owned by foreigners. It is necessary therefore that, in defining the expression creditor and debtor, account must be taken not only of the current account in merchandise but also of the capital account, the net balance of investments owned by foreigners or by domestic nationals as the case may be. Thus, the concessions to debtors or the obligations on creditors contained in both the American and British Plans should come into force only when the debtors have exhausted their overseas investments and the creditors their overseas obligations.

It is also essential that, at any rate in the earlier and necessarily experimental stages of any international currency organisation, there should be perfect confidence in the international currency unit; and there is no doubt that confidence in international media of value is associated with gold. This fact is of course recognised in both the American and the British Plans, for both *bancor* and *unitas* are to be expressed in terms of gold. But the link with gold is neither visible nor conspicuous in the case of the *bancor*; in fact, it is not even certain, for the

British Plan provides for easy changes in the gold value of the international unit. It will take some considerable time and a fairly long experience of the working of the international currency organisation before it would be possible for people to contemplate with confidence a managed international currency the value of which in gold will itself be subject to frequent change. In this respect, again, the American Plan would make for a greater sense of confidence, for it has got gold assets behind it and its value in terms of gold is more or less fixed for all practical purposes. I am not suggesting that the value of the international currency unit in terms of gold should be fixed for all time to come; but in the beginning, it is better to start with a fixed gold content; and leave it to the natural evolution of international currency practice to establish its flexibility in gold value. At least the international measuring rod must have an easily understandable stability and that implies, in the beginning at any rate, a fixed value in terms of gold.

Further it should be made perfectly clear that while creditors (using that expression in the sense defined above) should be prepared either to lend or to accept payment in goods, it should also be open to them to reduce their exports and thus balance their international trade account. This means that

they must have the freedom to prohibit exports or subject them to quotas and other restrictions. Similarly it should be open to debtors (using that expression in the sense defined above) to balance their budgets by reducing their imports; this means that they must have the freedom to prohibit imports or subject them to quotas and other restrictions. Theoretically, both these courses are technically consistent with the Anglo-American Plans; but the emphasis which is laid in both, particularly in the British Plan, is on the obligation of creditor countries to receive payments in goods; and the spirit of both is undoubtedly to encourage the promotion of world trade which can be better attained by creditors increasing imports rather than by decreasing them. One danger of this emphasis is that debtors will tend to get a better ratio of interchange for their goods than creditors, which is directly contrary to the practice so far of trade history. The more important danger, however, is that it will adversely interfere with the economic development of member countries, an interference that will naturally have more serious implications for the backward economies rather than for the economies which are already highly developed and are nearer their optimum levels. The ideal solution for this of course would be to treat world economy as one and

use world resources as a whole and in such manner as to result in an international equality of standard of living. In fact, the reason why free trade within a country is not objected to is that the Government of the country takes steps to equalise economic development in its different regions and when it fails in this, it, at any rate, does its best to equalise standards of life in different regions. It is the absence of a similar authority in the international field which lends its basic force to economic nationalism. Under the circumstances, and pending the evolution of such an international authority, it would be both more realistic and more just to give the backward economies full freedom for their individual development; and that includes the freedom to control both imports and exports in the national interest, particularly the freedom not to be compelled to import goods which might adversely affect domestic industries.

Arising from this is one especial need of the backward economies: and that is tariff autonomy. It is true that free trade is conducive to the expansion of world trade and that it is also theoretically consistent with individual national interests when the nations concerned have all had same opportunities for industrial development and have all started in the industrial race at the same time. But these

conditions are historically not borne out by facts; and a number of countries like e.g. India and China have a great deal of leeway to make up in industrial development; this they can do against the competition of the more industrially developed nations only by the erection of protective tariff walls. The international currency authority should therefore take these facts into account and specially allow for the development of infant industries of the backward economies in any economic policies they may suggest for the consideration of member countries. Once the economic development of different countries has reached at least somewhere near their optimum levels and nations do not show considerable disparity in their standards of living, it **would be** appropriate for the currency authority to ask for stabilisation and, subsequently, reduction of national tariff levels.

Then again, stability of exchange which is the keynote of the American Plan is not equally in the interests of all the United Nations, countries like India whose currency policy has been based on stability of exchanges having found from experience that it does not suit them from the point of view of both their agriculturists' interests and the interest of their internal trade which is several times larger than their foreign trade. Moreover, stability of exchange

will create difficulties in the way of their undertaking any large scheme of public works or otherwise accelerating the pace of capital creation beyond the limits set by the ordinary pace of voluntary saving. Further, the immediate future is not appropriate for the fixation of exchange rates by a country like India which has not accepted as final either the statutory link with sterling or the present exchange value of the rupee. In fact, one of the tasks specifically entrusted to the Reserve Bank of India is the formulation of a proposal for the revision of the monetary unit, and this has not yet been done. Under the circumstances, two modifications are necessary to make the American Plan acceptable in this regard.

(i) Member countries shall have the freedom to alter the present exchange values of their cuereneies within a period of 5 years after the termination of war.

(ii) Member countries shall not be required to have rigid exchange values for their currencies, but shall be allowed to have flexible exchange values, the range of variation being limited to say 10 or 15%.

Another important requirement is that the right of conversion of *unitas* into the currency of any one member country shall be limited to a figure approve by the Government of the country; otherwise, it

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*This would be particularly true, e. g., if the Bombay plan for the economic development of India is adopted by the post-war Government of India.

may happen that an overwhelming mass of demand may be concentrated on one country; and the result would be a domestic inflation of the type we have been experiencing in India during the last 3 years. This danger may be more so in the case of a country like the United States than India; but the danger is not absent even for India if after the war there is a big demand for her food grains and raw materials either from Europe or from the Middle East and the Far East. It is surprising that the British Plan gives no recognition of this danger and allows the unlimited conversion of credit balances into *unitas* and their re-conversion into any local currency. The American Plan is superior in this respect and makes provision for the rationing of scarce currencies. But the limitation must be made more specific; and it must be provided that the extent of convertibility of *unitas* into any given local currency, in other words, the right of foreign countries to buy goods in any one country without paying for the same in equivalent value in goods should be limited to an amount which will be determined by the Government of the country concerned and shall be such as not to result in any dislocation of its internal economy.

The same argument also applies to the disposal of what are called abnormal balances. The British Plan suggests that the debtors should not be made to

pay at once and at the same time that some means should be found by which creditors could utilise these balances for making purchases. Presumably the idea is that the international currency authority should create extra purchasing power for the use of creditor countries against the asset of the securities of debtor nations. First of all, this goes directly against the cardinal principle of the British Plan *viz:*, equality of current credits and debits; and secondly, it would subject countries where this new purchasing power may be exercised to a tremendous inflationary pressure. It will thus expose a few countries which have goods worth purchasing to the same inflationary pressure which we in India have experienced during the last 3 years; their *unitas* balances will grow even as our sterling balances have grown; and their domestic currencies will expand even as our domestic currency has expanded. The most likely victim of this process will be the United States of America, but India with its food grains, cloth, and raw materials may well be another. In any case, no government with any sense of responsibility to the interests of its citizens will allow an unlimited volume of exports from its country in return for *unitas* balances. The American Plan is more realistic in this respect in so far as it limits the right of conversion of *unitas* into local currencies.

if the international currency authority is to take over the abnormal balances, it can do so only on the understanding that the *unitas* it will provide in return will not be more than the volume of *unitas* that member countries are willing to buy in return for their own currencies; and as this will obviously be less than the total amount of abnormal balances, it will be necessary to provide for a period of time over which the abnormal balances can be cashed by the creditors concerned, It is not possible to determine this period definitely right at the beginning of the inception of the International Currency Union; it would be better therefore to fix the proportion of abnormal balances that can be cashed within the first two years; leaving the figure to be revised in the light of more knowledgc at the end of that period. This will obviously mean some sacrifice on the part of the owners of abnormal balances: but no owner of such balances can possibly expect their balances to be liquidated all at once within a year whether by the International Union, or by their individual debtors, and it will be better that they should agree to the taking over of the balances by the international authority and thus get the right to use their gradually released balances to purchase in the markers of their choice rather than allow their individual debtors to convert them into blocked

balances. It must be added however that in determining the amount of these abnormal balances, the balance of indebtedness on capital account, both public and private, must be taken into account and if a debtor holds any assets in the country owing the abnormal balances, these must first be set off against the balances, and only the remainder treated as abnormal war balances. It will also be necessary in the case of abnormal balances held in sterling to go into their history, as a part of them might really be dollar or other balances compulsorily converted into sterling because of British Exchange Control being operated over the British Empire as a whole.

It is also relevant to point out that the success of the scheme will turn upon the extent to which it covers the whole world in its membership. It is necessary therefore that provision should be made from the beginning for the inclusion of the countries which are now in the enemy camp and that no discriminatory conditions should be imposed on them. Otherwise it will result either in the perpetuation of the present Axis and Allied groupings of world economy or in a lop-sided development of the world economy. It is also necessary that there should be only currency union and that should be the international currency authority. The British P

suggests that there is no objection to the formation of currency blocs like the sterling bloc or a dollar bloc and so on : but it is difficult to find justification for such group organisation when there is to be an international orgnisation the main object of which is to do away with bilateral arrangements and promote multi-lateral clearing. The existence of such blocs will inevitably lead to the development of feelings of separatism, promote inter-group jealousies, encourage attempts at drawing away members from one another, and ultimately introduce power politics in the arena of the international currency anthority. It is true that the sterling bloc gives London an exceptional importance in the realm of international trade and currency but this sacrifice is inevitable; if there is to be a healthy world organisation in currency matters.

Finally, the international currency organisation should not be mixed up, as the British Plan suggests, with any international relief organisation or international lending corporation. Relief to distressed countries should be given by countries whose general economic strength and levels of national income permit them to do so ; and the incidence of the burden of this relief should not be apportioned on the basis of the current trade surpluses of different countries.

To sum np, it is better to take as one's basis the American Plan rather than the British Plan because the American Plan provides on international currency organisation with concrete assets and is a more realistic extension of the banking principle into the international field than the British Plan which, as is to be expected of its author, is in advance of his times. Taking the American Plan as the basis, the following modifications in it are necessary both in the light of the points contained in the British Plan and the requirements of the backward economies like India and China.

(1) It must be clearly understood that debtor countries ought to attempt to reduce their imports in consonance with the volume of their exports and not merely look to an increase in the volume of their exports to make up the deficit. Similarly, it must be clearly understood that creditor countries have every right to reduce their exports in consonance with the volume of their imports and not be compelled to look to an increase in the volume of their imports to offset the surplus.

(2) Any economic policy that may be recommended to member countries, in the interests of the international equilibrium of payments must clearly recognise the right of backward economies to use the tariff weapon to build up their industrial structure.

(3) The definition of creditor and debtor countries must take into account not only their current trade balances, but also the balance of the existing foreign indebtedness, including in it both public and private debt.

(4) The exchange values of the currencies of member countries shall be treated as provisional and subject to alteration, within a poriod of five years from the terminatiou of war, primarily by the countries concerned but after consultation with the international currency authority.

(5) Member countries shall be given the option to have a flexible exchange value for their currency provided the range of variation does not exceed 10%.

(6) The convertibility of *unitas* into the currency of any individual country shall be limited to an amount that will not seriously dislocate its domestic economy, the amount to be fixed by negotiation by the government concerned with the international currency authority; and if this amount is not equal to the demand on the local currency, rationing on the lines suggested in the American plan should be resorted to.

(7) As for what are called abnormal war balances, these balances shall be struck after taking into account the foreign indebtedness, both public and private. of the countries in question and the balances that remain shall be liquidated over a period of years to be determined by the international currency authority in consultation with the creditors in question. The amount to be liquidated in the first two or three years shall be fixed initially, and changed after the period in the light of subsequent world conditions. It should be clear however that in return for not asking for immediate cashing of their balances and agreeing to their gradual encashment creditor countries should be free to utilise their released balances to purchase the currency of any member country and not merely that of the country who is their original debtor; in other words, creditor countries should be free to utilise their released balances in any market they like, subject of course to the limitation specified in clause 6.

(8) If the scheme is to have a measurable chance of success, no country should be excluded from member-

ship which agrees to comply with the necessary conditions ; and no member country should initiate or belong to any smaller currency union or currency bloc.

(9) The international currency organisation shall have the functions of promoting multi-lateral clearing and preventing short period trade deficits from starting deflationary trends and economic crises ; but it shall not use its funds for the purposes of relief or international lending. Separate international organisations should be created for this purpose base on the economic capacity of member countries; but it will be open to these organisations to utilise the service of the international currency organisation on giving sufficient securities in the form of gold or other acceptable assets.

I should like to repeat that clauses 1 and 2 are necessitated by the uneven and unequal industrial development of member countries, the economic effects of which are not compensated by any world policy of equalisation of national standards of living or a policy of permanent subsidies from the richer to the poorer nations. In the event of the establishment of a world economic union having as its policy an equalisation of income levels throughout the world, these clauses would become unnecessary.

I have so far refrained from making any remarks about the constitution of the Governing Body of the international currency authority. as the issues involved are not only economic but also political. But it is not possible to divorce economics from

politics ; and much of the acceptability of the international currency plans would turn not so much upon the funcrions and powers of the international currency authority so much as upon who controls the authority, whether it is concentrated with U. K. or U.S.A. or the big three or whether it is reasonably dispersed over the entire membership. In fact, the constitution of the Governing Body and the allocation of voting powers are highly important, as the functions of the international currency authority have far-reaching implications on national economic policies. In this respect, the British proposal to distribute votes in the proportion of quotas tends to increase the influence of countries whose foreign trade is larger and would obviously be not acceptable to countries like Russia or China or India. The American proposal is also to distribute votes in proportion to quotas ; but as their quota's take into account not only foreign trade but also national incomes, it would be more acceptable to countries with large incomes, but not proportionately large trade. But countries like China and India whose incomes and trade are both small in comparison with the size of their populations and the potentialities of their economic development may not be equally satisfied. In any case, it is important that no one power or allied group of powers should dominate the Board

and the American provision that no country shall be entitled to cast more than one-fourth of the aggregate votes regardless of its quota is a step in the right direction, though it would make the plan acceptable to the smaller powers if the maximum voting strength of each individual country is reduced to 10 or 15%. The Amercan provision for a 85% vote being necessary in taking decisions on major issues is also preferable to a simple majority vote. What we in India would be interested in is to see that the international currency authority is so constituted as not to be dominated by the big powers acting either singly or in concert: and any system of voting that ensures this object should prove acceptable from the point of view of India or any of the smaller or more backward economies.

CHAPTER V

THE CANADIAN PLAN.

The Canadian Plan is obviously better than either the American or the British Plans. It is natural that this should be so, for the Canadian experts had the advantage of seeing the American and British Plans before formulating their Plan and it is easier to suggest modifications in a prepared draft than to formulate a satisfactory plan *de novo.*

Broadly speaking, the Canadian Plan takes the American Plan as its working basis and proceeds to suggest modifications in the same in the light of the provisions of the British Plan as well as the criticisms of its own experts. It may be worth recalling that this is exactly what we have done in the preceding pages and it also follows that the Canadian Plan meets at least some of the objections we have advanced with regard to the Anglo-American Plans.

The principal changes suggested in the Canadian Plan are summed up below:—

(1) The aggregate of national quotas is placed at $ 8000 millions, but the gold portion of the quota is reduced to 15%. The resources of the Union are further increased by the provision of loans to the Union from member countries to the extent of 50% of their quotas.

(2) The gold value of the international currency unit can be changed by a 85% vote of the members of the Union.

(3) Between the Union's buying and selling price for member currencies and for gold, there shall be a spread not exceeding 1% ; and a corresponding range of flexibility shall be permitted in their exchanges to member countries. Subject to this range, it shall be the duty of member countries to maintain their exchange rates by appropriate action.

(4) No net purchases of foreign exchange by any member country shall be allowed as long as its holdings of gold and foreign currencies convertible into gold (including private and official holdings) exceed its quota. Subject to this, net purchases of foreign exchange will be allowed, but only for meeting adverse payments on current account. Beyond 50% of its quota, a member country shall be permitted to make net purchases of foreign exchange only on its selling to the Union appropriate amounts of any reserves it or its residents may hold of gold or of foreign exchange acceptable to the Union. The right to depreciate its exchange rate by 5% in case its net purchase of foreign exchange exceed 50% of its quota is retained, but subject to the condition that it does not hold any gold or foreign currencies freely convertible into gold in excess of 50% of its quota Subject to these conditions, net sales of foreign exchange by the Union to any member country shall not exceed 50% of its quota during the first year and cumulative net sales shall not exceed 100%, 150% or 200% during the first two, three and four years of the operation of the Union.

(5) Every member of country shall, on request by the Union, sell to the Union for local currency or for foreign currencies it needs all the gold and foreign exchange it acquires in excess of the amounts held immediately after its joining the Union.

(6) The Union is not to mix up its function with any scheme for giving relief to distressed countries or loans for reconstruction purposes.

(7) As for abnormal balances, the Union shall buy them from the creditors concerned for the national currency of the selling country or foreign exchange needed by it to meet its current account deficit, but subject to the condition that these purchases will not in the aggregate exceed 5% of the combined quotas of all member countries. After two years, the position will be reviewed and new arrangements made for the liquidation of remaining abnormal balances.

(8) A 1% charge in gold shall be levied on all countries on the account of their currencies held by the Union in excess of the quotas of such countries,

(9) Creditor countries can leave the Union on giving 20 days' notice while one year's notice shall be required for the same purpose from debtor countries. The Union will have a period of 5 years for liquidating its obligations to the creditor countries, while no period is specified for the liquidation of their obligations to the Union by debtor countries,

(10) All decisions shall be taken by a majority vote, but in any vote on a proposal to increase the quota of any member country, member countries shall acquire one extra vote for each 100,000 units of their contribution to the resources of the Fund which has been utilised, net, on the average of the preceding year by the Union for sale to other member countries; and member countries shall lose one vote for each 100,000 units of their net utilization of the resources of the Union on the average of the preceding year.

It will be seen that the Canadian Plan provides considerable safeguards against utilisation by debtor countries of the resources of the International Union as long as they possess any reserves of gold or foreign

exchange. If only foreign investments could also be added to this list, it would go far to satisfy the objection that we had raised in earlier pages.

The provisions regarding flexibility of exchange rates requires to be made more elastic to satisfy the requirements of countries like India : and it is also necessary to lay down in unambiguous terms that the object of the Plan is to promote economic development all over the world, particularly in the backward economies and that nothing in the Plan shall be inconsistent with the pursuit of economic policies designed to bring up the level of economic development in countries like India and China which have lagged far behind in the industrial race as compared to countries like the United Kingdom, U.S.A., Germany and Japan.

The provisions regarding abnormal balances are not very satisfactory, particularly the clause stating that foreign currency will be available in return for abnormal balances only for meeting deficits on current account. It is necessary that repatriation of foreign debt—both public and private—should be included in the list of objects for which foreign exchange is made available; and the limit of 5% of the combined total of quotas may be raised to 10%.

Finally, nothing is said in the Plan about the existence of currency blocs like the sterling bloc, the dollar bloc etc. This omission ought to be rectified. As has been seen from the way in which similar currency arrangements have been used by Germany to improve its own economic position and throw the cost of it on countries whose currencies are linked to its own currency, the existence of such blocs endangers the economic development of the satellite countries and is therefore inconsistent with the basic object of the international currency Plan.

On the whole, the Canadian Plan is a better basis for discussion and negotiation than either the British or the Original American Plans.

CHAPTER VI.

THE REVISED AMERICAN PLAN.

The U.S.A. Treasury Department's summary of the revised proposal for an International Stabilization Fund is commendably brief and makes much clearer reading than its original Plan. The main changes in the Revised Plan are summed up below :—

(1) The gold portion of each country's quota is now fixed at 50%.

(2) The gold value of the international currency unit can be changed by a 85% vote.

(3) Provision is made for changes in the exchange rates of member countries during the first three years owing to the extreme uncertainties of the immediate post-war period.

(4) The Fund may sell foreign exchange to member countries on condition that one half of such exchange shall be paid for in gold or acceptable foreign exchange. The Fund shall not normally hold the currency of any country by more than 100% of its quota except with specific approval of the Directors and on condition that satisfactory measures are being taken to correct the disequilibrium. When a member country is unduly delaying balancing its accounts, conditions may be placed on additional sales of foreign exchange to that country and it may be required to deposit gold or other suitable collateral.

(5) Each member country shall agree to sell to the Fund, for its local currency or the foreign exchange it needs, one half of the gold and foreign exchange it acquires in excess of its official holdings at the time it became a member of the Fund.

(6) As for abnormal balances provision is made for its purchase by the Fund in the first two years, to an extent not exceeding in the aggregate 10% of the quota. At the end of two years, the Fund shall propose a plan for the gradual further liquidation of blocked balances.

(7) No member country shall enter upon any new bilateral clearing arrangement or engage in multiple currency practices likely to hamper world trade or the free flow of productive capital.

(8) In voting on the sale of foreign exchange the votes of creditor countries shall be increased and those of debtor countries decreased.

The Revised Plan is in some ways an improvement upon the original scheme, in so far as it provides for a change in the gold value of the international unit and contains definite proposals for the liquidation of abnormal (which are wrongly termed 'Blocked') balances. But, from the point of view of deficit countries, it is even more conservative than before, for now it has increased the gold quota, limited the advances that can be made to deficit countries and subjected it to further conditions, and finally given weights to surplus countries in voting upon sales of foreign exchange. There is no doubt that from the point of view of India the Revised Plan is more acceptable than the original scheme, but it is exceedingly doubtful if it will be acceptable to Britain or even offer a satisfactory initial basis for discussion by the British experts.

CHAPTER VII.

THE ANGLO-AMERICAN JOINT PLAN.

Unlike the British, American and Canadian Plans, the new proposals for the International Monetary Fund are the result of a joint Anglo-American effort and represent an agreed compromise between British and American experts. The main points of difference between the I. M. F. and the original British and American Plans are briefly summed up below:

1. There is to be no international unit of account like *unitas* or *bancor*. The I. M. F. will keep its resources of local currencies in the central Banks of its member countries; the location of its gold resources is not stated.

2. The American suggestion of having an international Fund is adopted and the total amount to be subscribed is placed at 8,000 million dollars. But a concession has been made on the extent to which the subscription must be in the form of gold, the obligatory gold subscription of a member country being placed at 25% of its quota or 10% of its holdings of old and gold exchange, whichever is smaller.

3. Deficit countries can get accommodation from the Fund to the extent of 75% of their quotas *plus* an addition of 25% each year, subject to a maximum in all of 200% of their quotas. It is also stated that these conditions can be relaxed at the discretion of the Fund; but it is not clear how this can be done in practice as there is no clause compelling member countries to sell their currencies to the I. M. F. in exchange for any currencies the latter may offer. The only provision which would enable the I. M. F. to give this extra accommodation is found in clause 4 of para III which empowers it to get supplies of scarce currencies by buying it for gold or by borrowing it. As the gold reserves of the I. M. F. are limited, the effective operation of this provision will really turn upon the willingness to lend of the owners of scarce currencies..

4. Countries, demands on whose currencies exceed 75% of their quotas *i. e.*, whose export-surpluses exceed in value 75% of their quotas with the I. M. F., will have their currencies declared as scarce; and the scarce currencies will be equitably rationed among the countries needing them. In other words, no accom-

modation will be available to deficit countries to get goods from surplus countries beyond 75% of the quotas initially deposited by the latter with the I. M. F. It is of course open to the I. M. F. to increase its supplies of scarce currency either by borrowing or by purchase for gold. When this is either not possible or results in insufficient accommodation, deficit countries will have no alternative but to impose restrictions on their imports from the surplus countries. It is hardly necessary to hold that this will go directly against the objectives for which the I. M. F. is being created, as it may lead to retaliatory action and a consequent contraction of international trade. It is significant to note that the I. M F. has no power to enforce a compulsory liquidation of the export surpluses of member countries.

5. Member countries are required to have the parities of their currencies fixed in gold; and all-round uniform changes in this parity could be brought about by the consent of member countries contributing individually more than 10% of the aggregate quota. This provision is analogous to the provision contained

in the revised American Plan for changes in the gold value of *unitas*; the only difference being that there, an 85% vote was required for effecting any change.

6. Member countries have freedom to alter the exchange value of their currencies by 10%; changes to the extent of another 10% with the consent of the Fund which could be asked for within two days; and changes beyond that if the Fund agrees to the need for doing so, for correcting a fundamental disequilibrium. (Part IV, Clauses iii to v). This provision for exchange flexibility is more liberal than was provided in either of the Plans.

7. If at the end of the year, a member country has increased its holdings of gold, and gold exchange, the Fund may require it to use one half of such increase to re-purchase its own currency from the Fund. The ides is to prevent member countries from taking advantage of the Fund while simultaneously building up gold balances; and it is based on similar provision found in the revised American as also the Canadian Plans.

8. No control is to be exercised by the Fund over the economies of member countries, whether surplus or deficit, by way of directing them as to what they should do in order to restore equilibrium in their balances of payments. Members can withdraw from the Fund by a simple notice given in writing. This is a significant departure from the American Plan which provided for interference in domestic economic policies as also did the British Plan.

9. No arrangement is provided regarding war-time balances; their position as frozen balances is now legalised and their liquidation is presumably left to bilateral negotiations.

10. The obligations of membership are now made less comprehensive and more concrete. These are:—

(a) not to buy gold at prices outside the prescribed parities;

(b) not to allow exchange transactions in other currencies outside the prescribed ranges;

(c) not to engage in discriminatory currency arrangements or multiple cur-

rency practices without the approval of the Fund and not to impose restrictions on payments for current international transactions with other member countries.

The sting out of clause (c) is removed by a special provision which has been made for what is called the transitional *i. e.*, the immediate post-war period.

11. Special arrangements are made for what is called the transitional period during which the obligations of membership are relaxed for member countries. This transitional period is expected to last for at least three years after the termination of hostilities; but it can be continued as long as a member country is satisfied of its inability to settle balances of payment differences without unduly encumbering its facilities with the Fund. During such a transition period, member countries can continue exchange controls, and by implication impose restrictions on payments for current international transactions with other member countries and engage in discriminatory currency arrangements or multiple currency practices. It is also

absolved during this period of the obligation of purchasing its own currency from member countries in return for their currencies or even for gold, even though it can claim the right to buy their currencies in exchange for its own currency. This clause means in effect that certain countries can get accommodation from the I. M. F. without incurring any special obligations in return. It is a great concession to debtor countries like England, at the same time the U. S. A. gets the satisfaction that she will not bear the sole burden of such a concession.

It will be seen from the above brief review that the joint plan contains but little of the elements which formed the distinguishing features of either the British or the American Plan. The British Plan was primarily intended to force creditors to recognise their obligation to accept payment in goods and to grant necessary credits to debtor countries so that debtors could get time to adjust their economies and the volume of international trade could continue at an expanded level. The joint Plan severely restricts the extent to which one debtor can get accommodation, giving him in return the right to resort to just those currency and trade practices which it was the intention of both the Plans to extinguish. The American Plan was primarily intended to secure stability of exchange and the abolition of multiple

currency practices and ensure an orderly liquidation of war-time balances. The joint Plan leaves out war-time balances altogether, provides for considerable freedom to alter the exchanges, and permits the retention of multiple currency practices and restrictions on current account transactions for, what is called, the transitional period. Both the Plans had contained provisions for some measure of control on the domestic economies of both creditor and debtor countries, especially the latter; the joint plan leaves this out altogether and specifically provides that in dealing with a member country's request for a stated change in its exchange rate on the ground that it is necessary to correct a fundamental disequilibrium "the Fund shall not reject a requested change, necessary to restore equilibrium, because of the domestic, social or political policies of the country applying for a change". Unity of national economic policies which the British and American Plans had sought to introduce through the backdoor is now dropped by the joint Plan. On the whole, therefore, the joint Plan is a sort of compromise, a mere patch-work and yet it does constitute an advance over the situation that would have prevailed in the absence of any plan. The fact is that the interests of different countries are not exactly identical; creditors do not see eye to eye

with debtors, while backward economies are not prepared to accept the same limitations on their economic freedom with its possible effect in perpetuating the *status quo* as the more advanced economies are. It would obviously be difficult to expect all of them to accept voluntarily the conditions contained in either the British or the American Plan. We ourselves have dilated at length in the preceding pages on the reasons why it would not be desirable for India to accept them without substantial modifications; and similar considerations must be applying in the case of a number of other countries as well. What has now been proposed in the joint Plan is to give the largest possible measure of freedom to member countries, make the obligations of membership as light as possible, and yet create the nucleus of an international organisation that in course of time can be built up to its full stature. In a way I am inclined to think that it is a typically British compromise, not very rigid in its constitution or its obligations but leaving it to grow by way of conventions and understandings that will progressively embody the growth of conditions more favourable to international co-operation.

From the point of view of India, the new scheme has met most of the objections which I had

advanced in the first edition of this book. Thus, the joint Plan provides for elasticity in exchange, sympathetic consideration to proposals for changes in exchange rates, abstention on the part of the I. M. F. from interference in domestic economic policies, arrangements for reduced membership obligations during the transitional period, and restrictions on the credit accommodation granted to deficit countries. But there is one important matter in respect of which the new Plan fails to meet India's requirements. It is well known that India has accumulated large sterling balances in England which she has not been able to convert into goods or other currencies owing to war-time restrictions. It is also well known that India will require large imports of capital equipment in the post-war period in connection with her schemes of post-war planning and economic development; and these imports cannot be financed through the medium of these sterling balances. That is why India is so vitally interested in the evolving of a procedure for the orderly and rapid liquidation of these balances. In fact, it would not be far wrong if I were to say that the major incentive India has for joining the international currency organisation is her belief that this would help to secure an orderly rapid liquidation of all

war-time balances, especially that of the sterling balances which she owns. The original British and American Plans, and more concretely the revised American Plan had contained some provisions for the liquidation of war-time balances; and this has been criticised in the preceding pages for its inadequacy. The new Plan drops all reference to the war-time balances and leaves the problem of their liquidation for bilateral negotiations between the parties concerned. This is a very serious omission which India cannot accept. The I. M. F. must contain a definite provision for the orderly and rapid liquidation of these balances. In the immedate post-war period, the pent up demand for imported consumers goods is bound to affect India's trade; and it is not very likely that her current export surplus will leave much room for financing import of capital equipment after meeting this demand. It is therefore imperative that arrangements for the unfreezing of our standing balances are made at least in substantial measure in the immediate post-war period; and the best way of doing this is through the agency of the proposed International Monetary Fund. There are also certain other matters in

which the joint Plan is not quite satisfactory from India's point of view. But I would not therefore advocate India's non-participation in the Fund. This is not only because I feel that India must play her role in the task of building up an international enconomic machinery but also because I feel that it is no use taking up a negative attitude on such an important problem. I would therefore suggest that India should join the I. M. F. subject to the fulfilment of the following conditions. Conditions 7 to 9 are, I believe, implicit in the Plan itself, but it would be better to state them explicitly to avoid future misunderstanding.

1. Development of backward economies, and the provision of special facilities if necessary to such economies, should be one of the explicit objectives of the Fund.

2. The Fund should have as its transitional objective the orderly and rapid liquidation of war-time balances, and there should be some provision in its machinery for achieving this objective.

3. The principles on which quotas are to be determined are not stated in the new proposals. We do not know if the basis will be volume of foreign trade as in the original British Plan, or national income, foreign trade and gold holdings as in the American Plan. As far as India is concerned, it would be desirable also to include the criterion of popula-

tion as one of the standards. This is particularly important in view of the fact that the scheme provides for five representatives on the Executive Committee from countries with the largest quotas and voting rights are closely related to quotas. In any case, India should have one of the permanent seats on the Executive Committee of the Fund. She has at least as much right to it as China. The best solution would be to raise the number of permanent seats to 6 and give both India and China seats in addition to U. S. A., U. K., Russia and France.

4. Details of the provisions for the management of the new institution have not been dealt with in the proposals. India should see that these details are such as will enable her to have a reasonable voice in the policy and administration of the International Monetary Fund. In other words, India should have adequate representation on the personnel of the secretariat and administrative staff of the Fund.

5. In the operation of the Fund, it should be laid down that no country will get facilities for exporting capital as long as she owes war-time balances which she has not yet liquidated. In other words, the first charge over the trade surplus of a country in excess of its current domestic requirements should be the liquidation of war-time balances.

6. In the Explanatory Memorandum attached by the U. K. experts, it is stated that the scheme

allows during the transitional period for the maintenance and adoptation by members of the sterling area of the arrangement now enforced betweent them." It should be clearly understood that this does not mean that India is committed during the transitional period to maintain the existing link of the rupee with sterling and at its existing rate. The relation of the rupee to sterling during the transitional period should be solely a matter for India to decide.

7. India should have freedom to have its own tariff policy.

8. India should have the freedom to have a flexible exchange and not stand committed to the rate of exchange she will accept at the beginning of the transitional period.

9. India should have the freedom to frame its own internal economic policy, such as, for example, a rapid and extensive programme of post-war economic development.

10. Finally, it is not clear on what basis the initial parities of different currencies in terms of gold is going to be fixed and particularly whether this will be left to the discretion of individual countries or whether there will be some mandate on the subject from the International Monetary Fund. India should have full freedom to determine the initial parities of her currency with reference to her domestic requirements and her post-war commitments in respect of the planned development of her internal economy.

CHAPTER VIII.

CONCLUSION.

The analysis of the International Currency Plans contained in the foregoing pages bears ample evidence to the difficulties of setting up an international authority in any economic ~~filed~~ when each nation is still inclined to place its own economic interests in the forefront of its policy and is unwilling to incur the sacrifice that is implicit in the creation of any international organisation. Above all, a sense of world economy or the imperative need for improving the economic status of all men irrespective of their race, colour or domicile is lacking. and each nation is still inclined to think primarily in terms of itself, though not perhaps subscribing to the related doctrine of "the devil take the hindmost." If one views the whole controversy with a little cynicism, we find America insisting upon gold and providing safeguards for creditors becanse the U. S. A. is the largest owner of the world's gold and is both a surplus and a creditor country; we find Canada supporting the American Plans, because she is within the orbit of American economy and is also a creditor country. We find Britain favouring the deficit and debtor countries and arguing in favour of the continued existence of subordinate currency blocks be-

cause she herself is going to have big trade deficits at the end of the war is vitally interested in the continuance of her empire sterling bloc. We find India displaying acute interest in abnormal balances and demanding their free and rapid utilisation because she herself possesses a large stock of them, but all this tender regard for sectional interests certainly does not furnish the base on which to erect an international structure.

The reality of the situation is that an international currency organisation is naturally aimed at stability of exchange; and stability of exchange together with the appropriate monetary, trade and investment action, it requires for its maintenance, is not equally to the advantage of the different countries concerned which have different interests and are at varying stages of economic development. Stability of exchange can best flourish only in a world where there are no creditors and debtors, where national price levels and economic policies march in step and in unison, and foreign trade is as free of duties and restrictions as internal trade is today. This is possible only in a world which is not only one economic unit in actual fact but is also treated as one unit, and its advantages made equally available to all the peoples of the world in the form of

approximately equal standards of life. Such a world however is not yet, even as within a nation, there are the rich and the poor, there are in the world as a whole rich and poor nations; even as the poor within a nation are convinced that their poverty is not inevitable and are determined to strain every nerve for raising their standards of life, so are the poor among the nations. As long as this state of affairs lasts, any international standard aiming primarily at stability of exchange will not succeed, for the conditions necessary for its success will not be present. Under the circumstances, it would be good statesmanship to take these facts into account and not for the creation of rigid lines which will bind national currencies to an international currency unit. We do not want another unsuccessful League of Nations experiment in the currency field.

But this does not mean that nothing should be done to arrive at international understanding in the currency field nor should the attempt at bringing an international currency organisation be given up because of some differences in national interests. There can be no difference of opinion about the fundamentals of the Plan *viz.*, grant of short-period credit to countries with current trade deficits, encouragement of multilateral clearing, promotion of free flow of capital across national boundaries, and

discouragement of the use of weapons of economic warfare. World interest as well as the interest of individual nations requires that order should be established in international currency relations; and this cannot be done without the creation of an international organisation. At the same time, we have seen that some countries have reached a stage of economic development at which stability of exchange and the measures necessary for maintaining it are not inconsistent with their national interests; on the other hand, there are a few backward countries like India or China which require the adoption of economic measures not consistent with stability of exchange; moreover, agricultural countries, generally speaking, are nervous of stability of exchange as long as nothing is done to maintain parity of agricultural to industrial prices in international trade. The only way out of the situation seems me to lie in a recognition of the .special position of the more backward economies, and not subject them to the same controls on their tariff or exchange policies as can be borne by the more developed economies; in fact this is the only way in which the international currency organisation could be made consistent with the object of securing world employment and world prosperity. At the same time, the differential treatment of

backward economies would not affect very materially the working of the currency organisation, for if the major economies like U. S. A. and U. K. can define the relation of their currencies with the international unit, there will be enough of a working basis of exchange stability to promote world trade and prevent economic warfare. I am not suggesting that the backward economies should have the freedom to run amok and use the exchange, tariff and other weapons to the detriment of the rest of the world. All that I am pleading for is a recognition of their special position and the consequent need for giving them a little more freedom than is normally compatible with membership of an international organisation. Once the backward economies develop and cease to be backward, their special position will cease and they will become subject to the same obligations as the advanced economies; and I have no doubt they will cheerfully accept them too. Indeed, from the point of view of the promotion of world trade as also of the continued maintenance of the prosperity of the advanced economies themselves, it is desirable that conditions should be created for the speedy development of the backward economies; and this cannot be done by imposing on

them the rigid obligations that normally arise from membership of an international currency organisation. Hence my plea for relaxing obligations on the backward economies, at least in the initial stages of the international currency organisation. After all it is realistic to recognise the different stages of economic development which different countries have reached; and it is equally realistic to provide for the differences at least temporarily in any international organisation that is sought to be brought into existence.

To sum up, there can be no doubt about the soundness of the objectives underlying the proposals for the creation of an international currency organisation; nor can it be denied that the absence of such an organisation in the post-war period would hamper the restoration of world prosperity. At the same time, the world consists of units at different levels of economic development, and the backward units will require more freedom than is strictly compatible with membership of an international organisation; moreover, it is to be theinterest of advanced units the mselves that the backward units should cease to be backward as early as possible. Under the circumstances, the best plan would be to create an international currency organisation that

will make special provision for the backward economics during the transitional period when their economic development is progressing to approximate to those of the advanced economies. It is also necessary that some provision should be made for the maintenance of proper parities between agricultural and industrial prices so that agricultural countries need not be so nervous as in the past about the implications of exchange stability on their domestic prices and peasantry's incomes. All these could be brought within ambit of the currency organisation if among its objects were to be placed in the forefront the objectives of world employment, world prosperity and development of all national economies towards full realisation of their economic potentialities. This will pave the way for international understanding on monetary matters and provide the necessary period of time in which backward countries, devastated countries and ex-enemy countries can develop their economic organisation and be ready to assume in full the responsibilities that inevitably follow from the membership of an international currency organisation. An international currency standard— be it linked with gold or managed by an international currency authority—pre-supposes for its success

a world the units of which are of economic peace with one another; and this is possible only when either the world becomes politically and economically one or its units are so developed that the standards of life of their peoples are approximately equal. Till then, it is wiser to begin modestly and not insist on uniform conditions for all members rather than to risk into a rigid currency scheme which is foredoomed to failure of the absence of the essential political and economic conditions necessary for its success.

From this point of view there is much to be said in favour of the Joint Plan for the creation of an International Monetary Fund. The I. M. F. provides for freedom of domestie economic policy on the part of member countries, and by implication preserves intact their tariff autonomy. It has also abandoned the principle of rigid exchange stability, and conceded a large measure of freedm to member countries to vary their exchange rates to suit their domestic requirements. What it does not provide for is the acceptance of total world employment and a consequential special development of the backward economies like those of China and India among its objectives. Nor

does it provide for the speedy and orderly liquidation of war-time balances so essential for the planned development of the backward economy of India. These are cardinal defects; and will I hope, be rectified before the Fund assumes its final shape and get, accepted by all the nations to the world. All the same the Joint Plan is a great advance on the previous proposals. True, it is not drawn on such an ambitious scale as the original British or American Plans, but it embodies a more realistic appreciation of the extent to which national interests can be subordinated to a general international good. I hope the same spirit of realism will influence both the countries which owe war-time balances and those which own them and lead to the inclusion in the I. M. F. of a compromise provision which will secure at least a partial liquidation of war-time balances in the immediate post-war period. After all, it is common ground that the greatest potential markets of the world are China and India; and these potentialities cannot be realised without the all round development of their economies. India's post-war economic development hinges on her ability to use her sterling balances; the liquidation of her sterling balances is therefore a world interest, and constitutes an

eminently appropriate subject for operation of the I. M. F. If for some reason or other, this is left out of the ambit of the I. M. F. an uneasy suspicion is bound to prevail that the advanced economies do not mean business when they talk of freeing the world from want and by implication the rapid development of the backward economies. Such suspicion is bound to be fatal to the atmosphere of goodwill and national confidence so necessary for the successful inauguration of any international organisation. After all, even if the liquidation of the sterling balances is left to bilateral negotiations between U. K. and India, it is not going to mean repudiation; Britain is bound to arrange for the conversion of these balances into goods and services, and she cannot insist that all of the latter must be of British origin. At the most there may be differences on the period of time within which the liquidation or the conversion into goods and services will take place; and the extent to which the latter will be permitted to be of non-British origin. But surely these differences cannot be impossible of settlement, particularly when Britain herself will benefit by the enlarged market which will follow India's economic development. Under the circumstances why should not Britain lay her cards *on the table*

and include the compromise solution in the I. M. F. organisation? By doing so, she will not lose anything material unless of course, what to me is unbelievable, she has no intention of permitting the liquidation of these balances within a measurable period after the termination of war. If Britain is sincere in her desire to promote world employment and therefore the planned economic development of India, if she is going to honour her debt and provide for at least a partial liquidation of her sterling debits as I am sure she wants too, I see no reason why Britain should not accept the liquidation of war-time balances as one of the objectives of the I. M. F. By doing so, she will be adding to her prestige as a fighter for and harbinger of an international order, she will allay the suspicions of India, she will be giving concrete proof of her desire to see a rapid development of the backward economies and above all, she will be helping to start the I. M. F. on an even keel and in an atmosphere of friendship and universal goodwill. Would it be too much to hope that Britain's economic statesmanship will rise to the occasion and help the world to start its first economic organisation on a secure and stable foundation based on consent freely and enthusiastically given by all the participating countries.

POST-SCRIPT.

THE BRETON WOODS CONFERENCE AND AFTER

The Breton Woods Conference has concluded its deliberations and its main conclusions are now available in India. As far as India was concerned, two major demands were put forward by the Indian delegation, *viz.*, (1) for the inclusion of war-time balances within the scope of the I. M. F. and (2) for a permanent seat for India on the Executive Board of Directors. Neither of these claims were accepted by the Conference, and the Anglo-American joint proposals for the I. M. F. have been accepted substantially unaltered by the Conference and are now before the legislature of the participating countries for ratification. Curiously enough, at the last stages of the Conference, the Indian delegation withdrew their objections and their formal approval can also be now claimed for these proposals. The question for discussion now is whether the Indian legislature should ratify these proposals or decide for India's non-participation in the I. M. F. It is necessary to note in this connection that the same conference also accepted the proposal for an International Bank for Reconstruction and Development; and since membership of the latter is contingent upon participa-

tion in the former, it is desirable to take the two together into consideration when discussing the question whether India should participate or not in the I. M. F.

The object of the proposed International Bank is to facilitate the international investment of capital in countries requiring the same either for restoration of economies destroyed or disrupted by war or reconversion of productive facilities to peace-time needs or the encouragement of the development of productive facilities and resources in less developed countries. India should be able to qualify for assistance under all the three heads, and particularly in respect of the last The Bank will render assistance not so much by direct loans as by guaranteeing loans made by private investors. The authorised capital of the Bank shall be ten billion dollars of which 20% shall be subscribed, and 80% left subject to call when required to meet the obligation of the Bank.* Two per cent is to be paid in gold or U. S. dollars, while the remaining 18% could be paid either in gold or dollars or in the local currency

NOTE—*Even of this 20%, only 2% is to be paid on entry into membership ; the remaining 18% is to be paid or subject to call as needed by the Bank for its operation.

of the country concerned. Presumably no restriction is placed on the currency in which the borrower may utilise his loan, but it is provided that currencies received by the Bank shall be exchanged for the currencies of other members or reloaned only with the approval of the members whose currencies are involved. It is also provided that the Bank shall impose no condition that the proceeds of a loan shall be spent in the territories of any particular member or members. Loans made or guaranteed by the Bank shall except in special circumstances be for the purpose of specific projects of reconstruction or development. The Bank has the power to make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted with due attention to considerations of economy or efficiency and without regard to political or other non-economic influences or considerations. In the case of loans made by the Bank, an account will be opened with the Bank in the name of the borrower in the currency in which the loan is made and permission to draw on this account will be to meet expenses in connection with the project as they are actually incurred. The arrangements made for the management of the Bank are similar to those for the I. M. F.; there are to be twelve executive directors of whom 5 are to be

permanently from the five countries with the largest quotas, same as in the I. M. F, two are reserved for the South American Republics, and the remaining five are to be elected by the other members of whom India will be one. The capital is divided into 100,000 shares of 100,000 dollars each and quotas assigned to the 44 nations at the conference total 8·8 billion dollars, the remaining 1·2 billion dollars being left for subscription by other nations. Full details of the constitution, functions etc., of the Bank are not yet available in India; but an official American summary received from the United States Office of War Information is given in Appendix VII.

There is no doubt that it is very necessary for India to join this International Bank. India has vast schemes for economic development which she wants to undertake in the post-war period; and if this is to be done without causing undue strain on the living standards of her people, a certain amount of temporary help from abroad will be necessary. She will require a good deal of capital goods and if she can borrow from or through the help of the International Bank against the security of her frozen sterling balances, it would not only help her economic development but also offset to a large extent the disadvantages she has suffered by the exclusion of war-

time balances from the scope of I. M. F. If arrangements could be made with the United Kingdom for her to pay the amortisation amounts due on the loans that India can obtain from the International Bank, India can get the capital she requires at once; and England will get enough time to liquidate her sterling balances, as the amortisation period will extend over a period of at least twenty years. I am not suggesting that this arrangement will enable India to obtain all the capital she requires nor give her possession of her entire sterling balances within a period of 3 or 4 years after the termination of hostilities; for it is not likely that India will be able to obtain a loan of 3000 to 4000 million dollars all at once, and there will be other pressing claims on the resources of the International Bank. But I see no reason why India should not be able to get 400 to 500 million dollars of American currency in the first three or four years of the post-war period; simultaneously I think it would be possible for her to get an equivalent if not a larger amount of sterling currency; and the two in combination should help us considerably in financing our immediate post-war requirements of capital goods from abroad. In fact, with the exclusion of war-time balances from

the operation of the I. M. F. and with the transitional clause in the I. M. F. which will give freedom to England from multilateral conversion even of the sterling acquired by current transactions, it is going to be a very difficult thing for India to get non-sterling currency, while even the sterling currency she will get be limited to her current trade balance except to the extent it is supplemented by an agreed programme of liquidation of war-time balances. The International Bank offers India a way out of these difficulties. On the one hand, India need not insist in her bilateral negotiations with U. K. upon the immediate convertibility of her sterling balances into other currencies; to the extent that she can obtain an immediate dollar loan either directly from the International Bank or through its guarantee, she can ask U. K. to pay the amortisation dues; and as this will be spread over a long period, there should be no reasonable objection on the part of U. K. to do so; having thus relieved U. K. from any immediate demand for conversion of her sterling balances into other currencies, it would be fair to expect her to agree to a substantial release of these balances for being spent within the sterling bloc itself; this will enable India to place orders for capital goods within U. K. and other sterling areas to the extent that

she needs in the immediate post-war period. It will be seen therefore that the machinery of the International Bank could be most useful to India for getting a part at any rate of her sterling balances liquidated in the immediate post-war period; and to this extent offsetting the disadvantages occurring to India by the exclusion of war-time balances from the I. M. F. I have therefore no hesitation in recommending India's participation in the membership of the International Bank. I would like to urge however the desirability of India being given a permanent seat on the Executive Board of Directors. If necessary, the number of members on the Board may be increased from 12 to 13 or 14, but it is absurd that a country of the size, importance and economic resources of India should not have a permanent seat when undeveloped China and war-devastated France are provided with such seats. This is particularly important in view of the fact that the new Bank is likely to exercise a very real control over all international investment of loan capital in the post-war period. I would like to suggest therefore that in discussing the question of accepting membership in the new Bank, the Indian legislature should unanimously record its opinion in favour of India being given a permanent seat on the

Executive Board of Directors and urge that this be done if necessary by increasing the total number of members on the Board to 13 or 14 from 12.

My conclusion regarding the attitude India should take in regard to the I. M. F. is equally emphatic. While it is a matter of grave disappointment to us that the two demands put forward by the Indian delegation at Breton Woods should have been turned down, I do not think that we should therefore vote against participation in the I. M. F. I have already pointed out that most of the grave objections which the original British and American Plans were subject to from the Indian point of view have been met by the Anglo-American joint proposals for the I. M. F., and that the obligations arising from membership are very light indeed, specially in the immediate post-war period when the transitional clause gives power to member countries to retain controls till they can safely remove them. The I. M. F. has no control over domestic economic policies and it gives a considerable measure of freedom to member countries in regard to exchange flexibility. Moreover, I am not quite certain that the end of the War will see the continuance of the present position regarding India's favourable balance of trade. There will, on the other hand, be certain

strong forces in operation in the opposite direction, and this is also borne out by our experience of the period following the termination of the last war. Thus, *e.g.*, a large volume of Indian demand for imported consumer's goods has remained pent-up owing to war-time restrictions, and this will make itself felt on the termination of the present hostilities. Then again, private investors and industrialists have been seeking an opportunity for the investment of their surplus funds and they are bound to place orders on a large scale for the import of capital goods. It is also extremely probable that India will require large imports of foodgrains in the immediate post-war period. Under these circumstances, there is every likelihood of our having to face an adverse balance of trade on current account in the post-war period, and if this does come off, membership of the I. M. F. will enable India to get the funds necessary for financing the adverse balance. Moreover, we have already seen that membership of the proposed International Bank would be most advantageous to India; and this is contingent on our accepting membership of the I. M. F. Under the circumstances. I am strongly of the view that India should not vote against participation in the I. M. F. At the same time, we should place on

record our emphatic opinion that India should have a permanent seat on the Executive Board of Direcors and that war time balances should be brought Within the scope of the I. M. F. Having done this, we should join the I. M. F. and make every attempt from within to get these demands accepted rather than stand aloof and let important international decisions affecting world currency and exchange be taken without taking part in the making of these decisions. Moreover, I have an uneasy suspicion that the rejection of India's demand for a permanent seat was largely due to Indias inferior political status rather than non-acceptance of her numerical economic importance; and once India's political status becomes comparable to that of other members of the I. M. F., there would be little difficulty in getting India a parmanent seat on the Board of Directors. I advocate therefore the view that in spite of the rejection of the demands at Breton Woods, India should vote for participation in the I. M. F. for the following reasons:—

(*i*) The obligations of membership of the I. M. F. are not such as to deprive India of her autonomy in economic policy or to tie her down to a policy of rigid exchange stability.

(*ii*) The I. M. F., will give India an opportunity to play some part in the shaping of

international decisions on problems of currency and exchange.

(*iii*) Membership of the I. M. F. will enable India also to become a member of the International Bank and thus get an opportunity not only of obtaining dollar currency as loan, but also of partially converting her sterling balances into dollars by a process of borrowing from the Bank against amortisation charges to be borne by the U. K.

(*iv*) Membership of the I. M. F. will enable India to get accommodation for financing a possible adverse balance of trade she may have to face in the immediate post-war period.

At the same time, India should re-affirm her claims for a permanent seat on the Executive Board of Directors and continue to press for the inclusion of war-time balances within the scope of the I.M.F.

I wish it had been possible to have had a detailed discussion of the final conclusions reached at Breton Woods. But this is not possible in the absence of information in India on these detailed proposals accepted at Breton Woods. All that one can say on a review of the information available is that the Anglo-American Joint Plan has been left substantially unaltered; a more detailed examination must necessarily await the receipt of fuller data.

Appendix I.

THE BRITISH PLAN

PROPOSALS FOR AN INTERNATIONAL CLEARING UNION

I.—The Provisions of the Plan

1. The provisions proposed (the particular proportions and other details suggested being tentative as a basis of discussion) are the following :—

(1) All the United Nations will be invited to become original members of the International Clearing Union. Other States may be invited to join subsequently. If ex-enemy States are invited to join, special conditions may be applied to them.

(2) The Governing Board of the Clearing Union shall be appointed by the Government of the several member States (as provided in (12) below) ; the daily business with the Union and the technical arrangements being carried out through their Central Banks or other appropriate authorities.

(3) The member States will agree between themselves the initial values of their own currencies in terms of bancor. A member State may not subsequently alter the value of its currency in terms of bancor without the permission of the Governing Board except under the conditions stated below ; but during the first five years after the inception of the system the Governing Board shall give special consideration to appeals for an adjustment in the exchange value of a national currency unit on the ground of unforeseen circumstances.

(4) The value of bancor in terms of gold shall be fixed by the Governing Board. Member States shall not purchase or acquire gold, directly or indirectly, at a price in terms of their national currencies in excess of the parity which corresponds to the value of their currency in terms

of bancor and to the value of bancor in terms of gold. Their sales and purchases of gold shall not be otherwise restricted.

(5) Each member State shall have assigned to it a *quota*, which shall determine the measure of its responsibility in the management of the Union and of its right to enjoy the credit facilities provided by the Union. The initial quotas might be fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years, and might be (say) 75 per-cent. Of this amount, a special assessment being sub stituted in cases (of which there might be several) where this formula would be, for any reason, inappropriate. Subsequently, after the elapse of the transitional period the quotas should be revised annually in accordance with the running average of each country's actual volume of trade in the three preceding years, rising to a five-year average when figures for five post-war years are available The determination of a country's quota primarily by reference to the value of its foreign trade seems to offer the criterion most relevant to a plan which is chiefly concerned with the regulation of the foreign exchanges and of a country's international trade balance. It is, however a matter for discussion whether the formula for fixing quotas should also take account of other factors.

(6) Member States shall agree to accept payment of currency balances, due to them from other members, by a transfer of bancor to their credit in the books of the Clearing Union. They shall be entitled, subject to the conditions set forth below, to make transfers of bancor to other members which have the effect of overdrawing their own accounts with the Union, provided that the maximum debit balances thus created do not exceed their quota. The Clearing Union may, at its discretion, charge a small commission or transfer fee in respect of transactions in its books for the purpose of meeting its current expenses or any other outgoings approved by the Governing Board.

(7) A member State shall pay the Reserve Fund of the Clearing Union a charge of 1 per cent. per annum on

the amount of its average balance in bancor, whether it is a credit or a debit balance, in excess of a quarter of its quota; and a further charge of 1 per cent on its average balance, whether credit or debit, in excess of a half of its quota. Thus, only a country which keeps as nearly as possible in a state of international balance on the average of the year will escape this contribution. These charges are not absolutely essential to the scheme. But if they are found acceptable, they would be valuable and important inducements towards keeping a level balance and a significant indication that the system looks on excessive credit balances with as critical an eye as on excessive debit balances, each being, indeed, the inevitable concomitant of the other. Any member State in debit may, after consultation with the Governing Board, borrow bancor from the balances of any member State in credit on such terms as may be mutually agreed, by which means each would avoid these contributions. The Governing Board may, at its discretion, remit the charges on credit balances, and increase correspondingly those on debit balances, if in its opinion unduly expansionist conditions are impending in the world economy.

(8) (*a*) A member State may not increase its debit balance by more than a ***quarter*** of its quota within a year without the permission of the Governing Board. If its debit balance has exceeded a quarter of its quota on the average of at least two years, it shall be entitled to reduce the value of its currency in terms of bancor provided that the reduction shall not exceed 5 per cent. without the consent of the Governing Board; but it shall not be entitled to repeat this procedure unless the Board is satisfied that this procedure is appropriate.

(*b*) The Governing Board may require from a member State having a debit Balance reaching a ***half*** of its quota the deposit of suitable collateral against its debit balance. Such collateral shall, at the discretion of the Governing Board, take the form of gold, foreign or domestic currency or Government bonds, within the capacity of the member State. As a condition of allowing a

member State to increase its debit balance to a figure in excess of a half of its quota, the Governing Board may require all or any of the following measures:—

(*i*) a stated reduction in the value of the member's currency, if it deems that to be the suitable remedy ;

(*ii*) the control of outward capital transactions if not already in force ; and

(*iii*) the outright surrender of a suitable proportion of any separate gold or other liquid reserve in reduction of its debit balance.

Furthermore, the Governing Board may recommend to the Government of the member State any internal measure affecting its domestic economy which may appear to be appropriate to restore the equilibrium of its international balance.

(*c*) If a member State's debit balance has exceeded *three-quarters* of its quota on the average of at least a year and is excessive in the opinion of the Governing Board in relation to the total debit balances outstanding on the books of the Clearing Union, or is increasing at an excessive rate, it may, in addition, be asked by the Governing Board to take measures to improve its position. and, in the event of its failing to reduce its debit balance accordingly within two years, the Governing Board may declare that it is in default and no longer entitled to draw against its account except with the permission of the Governing Board.

(*d*) Each member State, on joining the system, shall agree to pay to the Clearing Union any payments due from it to a country in default towards the discharge of the latter's debit balance and to accept this arrangement in the event of falling into default itself. A member State which resigns from the Clearing Union without making approved arrangements for the discharge of any debit balance shall also be treated as in default.

(9) A member State whose credit balance has exceeded a *half* of its quota on the average of at least a year shall discuss with the Governing Board (but shall retain the ultimate decision in its own hands) what measure would be appropriate to restore the equilibrium of its international balances including—

(*a*) Measures for the expansion of domestic credit and domestic demand.

(*b*) The appreciation of its local currency in terms of bancor, or alternatively, the encouragement of an increase in money rates of earnings.

(*c*) The reduction of tariffs and other discouragements against imports.

(*d*) International development loans.

(10) A member State shall be entitled to obtain a credit balance in terms of bancor by paying in gold to the Clearing Union for the credit of its clearing account. But no one is entitled to demand gold from the Union against a balance of bancor, since such balance is available only for transfer to another cleanig account. The Governing Board of the Union shall, however, have the discretion to distribute any gold in the possession of the Union between the members possessing credit balances in excess of a specified proportion of their quotas, proportionately to such balances, in reduction of their amonnt in excess of that proportion.

(11) The monetary reserves of a member State, *viz.*, the Central Bank or other bank or Treasury deposits in excess of a working balance, shall not be held in another country except with the approval of the monetary authorities of that country.

(12) The Governing Board shall be appointed by the Governments of the member States, those with the larger quotas being entitled to appoint a member individually, and those with smaller quotas appointing in convenient political or geographical groups, so that the members would not exceed (say) 12 or 15 in number,

Each representative on the Governing Board shall have a vote in proportion to the quotas of the State (or States) appointing him, except that on a proposal to increase a particular quota, a representative's voting power shall be measured by the quotas of the member States appointing him, increased by their credit balance or decreased by their debit balance, averaged in each case over the past two years. Each member State, which is not individually represented on the Governing Board, shall be entitled to appoint a permanent delegate to the Union to maintain contact with the Board and to act as *liaison* for daily business and for the exchange of information with the Executive of the Union. Such delegate shall be entitled to be present at the Governing Board when any matter is under consideration which specially concerns the State he represents, and to take part in the discussion.

(13) The Governing Board shall be entitled to reduce the quotas of members, all in the same specified proportion, if it seems necessary to correct in this manner an excess of world purchasing power. In that event, the provisions of 6 (8) shall be held to apply to the quotas as so reduced, provided that no member shall be required to reduce his actual overdraft at the date of the change, or be entitled by reason of this reduction to alter the value of his currency under 6(8) (*a*), except after the expiry of two years. If the Governing Board subsequently desires to correct a potential deficiency of world purchasing power, it shall be entitled to restore the general level of quotas towards the original level.

(14) The Governing Board shall be entitled to ask and receive from each member State any relevant statistical or other information including a full disclosure of gold, external credit and debit balances and other external assets and liabilities, both public and private. So far as circumstances permit, it will be desirable that the member States shall consult with the Governing Board on important matters of policy likely to affect substantially their bancor balances or their financial relations with other members.

(15) Executive offices of the Union shall be situated in London and New York, with the Governing Board meeting alternately in London and Washington.

(16) Members shall be entiled to withdraw from the Union on a year's notice, subject to their making satisfactory arrangements to discharge any debit balance. They would not, of course, be able to employ any credit balance except by making transfers from it, either before or after their withdrawal, to the Clearing Accounts of ther Central Banks. Similarly, it should be within the power of the Governing Board to require the withdrawal of a member, subject to the same notice, if the latter is in breach of agreements relating to the Clearing Union.

(17) The Central Banks of non-member States would be allowed to keep credit clearing accounts with the Union; and, indeed, it would be advisable for them to do so for the conduct of their trade with member States. But they would have no right to overdrafts and any say in the management.

(18) The Governing Board shall make an annual Report and shall convene an annual Assembly at which every member State shall be entitled to be represented individually and to move proposals. The principles and governing rules of the Union shall be the subject of reconsideration after five years' experience, if a majority of the Assembly desire it.

Appendix II.

THE AMERICAN PLAN

A UNITED AND ASSOCIATED NATIONS STABILIZATION FUND

1. Purposes of the fund—

1. To stabilize the foreign exchange rates of the currencies of the United Nations and nations associated with them.

2. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

3. To help create conditions under which the smooth flow of foreign trade and of productive capital among the member countries will be fostered.

4. To facilitate the effective utilization of the abnormal foreign balances accumulating in some countries as a consequence of the war situation.

5. To reduce the use of foreign exchange controls that interfere with world trade and the international flow of productive capital.

6. To help eliminate bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices.

2. Composition of the fund—

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments.

2. Each of the member countries shall subscribe a specified amount which will be called its quota. The aggregate of quotas of the member countries shall be the equivalent of at least 5 billion dollars.

The quota for each member country shall be determined by an agreed upon formula. The formula

should give due weight to the important factors relevant to the determination of quotas, *e.g.*, country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

3. Each member country shall provide the Fund with 50 percent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each member country (consisting of 50 percent of its quota) shall be 12.5 percent of its quota in gold, 12.5 percent in local currency, and 25 percent in its own (*i.e*, government) securities. However, any country having less than 300 million dollars in gold need provide initially only 7/5 percent of its quota in gold, and any country having less than 100 million dollars in gold need provide initially only 5 percent of its quota in gold, the contributions of local currency being increased correspondingly. A country may, at its option, substitute gold for its local currency or securities in meeting its quota requirements.

5. The member countries of the Fund may be called upon to make further provision toward metting their quotas *pro rata* at such times, in such amounts, and in such form as the Board of Directors of the Fund may determine, provided that the proportion of gold called for shall not exceed the proportions indicated in II-4 above, and provided that a four-fifths vote of the Board shall be required for subsequent calls to meet quotas.

6. Any changes in the quotas of member countries shall be made only with the approval of a four-fifths vote of the Board.

3. **Powers and operations—**

1. **The Fund shall have the following powers :—**

1. To buy, sell, and hold, currencies, bills of exchange, and government securities of member countries ;

to accept deposits and to earmark gold ; to issue its own obligations, and to discount or offer them for sale in member countries ; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

All member countries agree that all of the local currency holdings shall be free from any restriction as to their use.

This provision does not apply to abnormal war balances acquired in accordance with the provisions of III-9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be considered only when essential to correction of fundamental disequilibrium and be permitted only with the approval of four-fifths of member votes.

3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund, currency of any member country which the Fund holds, provided that :

(*a*) The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.

(*b*) The Fund's holdings of the currency of any member country shall not exceed during the first year of the operation of the Fund, the quota of that country ; it shall not exceed during the first two years 150 percent of such quota ; and thereafter it shall not exceed 200 percent of such quota ; except that upon approval by fourfifths of the member votes, the Fund may purchase any local currency in excess of these limits, provided that at least one of the following two conditions is met ;

(*i*) The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or

(*ii*) It is believed that the balance of payments of the country whose currency is being acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

(*c*) When the Fund's net holdings of any local currency exceed the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors. This provisión does not apply to currencies acquired under III-9 below.

(*d*) When a member country is exhausting its quota more rapidly than is warranted in the judgment of the Board of Directors, the Board may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Fund.

(*e*) A charge at the rate of 1 percent per annum, payable in gold, shall be levied against any member country on the amount of its currency held by the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund (in accordance with III-9 below) shall not be included in the computed balance of local currency used as a basis for this charge.

(*f*) When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country, the Fund shall resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.

4. The right of a member country to purchase foreign exchange from the Fund with its local currency

for the purpose of meeting an adverse balance of payments on current account is recognized only to the extent of its quota, subject to the limitation in III-3 above and III-7 below.

5. With the approval of four fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country to facilitate transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation.

6. When the Fund's holdings of any particular currency drop below 15 percent of the quota of that country, and after the Fund has used for additional purchases of that currency,

(*a*) Gold in an amount equal to the country's contribution of gold to the Fund, and

(*b*) The country's obligations originally contributed,

the Fund has the authority and the duty to render to the country a report embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The Board member of the country in question should be a member of the Fund committee appointed to draft the report. This report should be sent to all member countries, and, if deemed desirable, made public.

Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the anticipated demand for any particular currency may soon exhaust the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distri-

bution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the foreign balances of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under appropriate conditions which are acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Fund shall apportion its sales of such scarce currency. In such apportionment, it shall be guided by the principal of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agues that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed immediately after joining the Fund. For the purpose of this provision, including computations, only free foreign exchange and gold are considered. The Fund may accept or reject the offer. To help achieve this objective, each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the Governments of member

countries, abnormal war balances held in other countries, provided all the following conditions are met:

(*a*) The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member Government on date of its becoming a member.

(*b*) The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

(*c*) The country in which the abnormal war balances are held agrees to the transfer to the Fund of the balances described in (*b*) above, and to repurchase from the Fund 40 percent of them (at the same price) with gold or such currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

(*d*) A charge of 1 percent, payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 precent payable in gold, shall be levied annually against them on the amount of such balances remaining to be repurchased in each country.

(*e*) If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold, the accumulation of foreign balances, or other capital transactions.

(*f*) Either country may, at its option, increase the amount it repurchases annually. But, in the case of

the country selling abnormal war balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.

(*g*) The Fund has the privilege of disposing of any of its holdings of abnormal war balances as free funds after the 23 years period is passed, or sooner under the following conditions :

(*i*) its holdings of the free funds of the country in which the balances are held fall below 15 percent of its quota; or

(*ii*) the approval is obtained of the country in which the balances are held.

(*h*) The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the instalments of the 40 percent portion gradually repurchased by the country which sold the balances to the Fund.

(*i*) The Fund agrees not to sell the abnormal war balances acquired under the above authority except with the permission or at the request of the country in which the balances are being held.

The Fund may invest these balances in ordinary or special Government Securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing Government is first obtained.

(*j*) The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it will purchase under this provision. Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of n[illegible]ember countries, but shall not be authorized to h[illegible]urren-

cies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.

11. To borrow the currency of any member country provided four-fifths of the member votes approve the terms of such borrowing.

12. To sell member-country obligations owned by the Fund provided that the Board representative of the country in which the securities are to be sold approves.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in Government securities and prime commercial paper of the country of that currency provided four-fifths of the member votes approve, and provided further that the Board representative of the country in which the investment is to be made approves.

14. To lend to any member country its local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund, provided such loan is approved by four-fifths of the member votes.

15. To levy upon member countries a *pro rata* share of the expenses of operating the Fund, payable, in local currency, not to exceed 1/10 percent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses, and only with the approval of four-fifths of the member votes.

The Fund shall make a service charge of 1/4 percent or more on all exchange and gold transactions.

16. The Fund shall deal only with or through :

(*a*) The treasuries, stabilization funds, or fiscal agents of member Governments ;

(*b*) The central banks, only with the consent of the member of the Board representing the country in question ; and

(*c*) Any international banks owned predominantly by member Governments. The Fund may, nevertheless, with the approval of the member of the Board representing the Government of the country concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries.

IV. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the "Unitas" ("UN") consisting of 137 1/7 grains of fine gold (equivalent to 10 dollars U. S.). The accounts of the Fund shall be kept and published in terms of Unitas.

2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or Unitas, and may not be altered by any member country without the approval of four-fifths of the member votes.

3. Deposits in terms of Unitas may be accepted by the Fund from member countries upon the delivery of gold to the Fund, and shall be transferable and redeemable in gold or in the currency of any member country at the rate established by the Fund. The Fund shall maintain a 100 percent reserve in gold against all Unitas deposits.

4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the fund. Thus if the Fund approves a reduction in the value of the currency of a member country (in terms of gold or Unitas) or if, in the opinion of the Board, the currency of a member country has depreciated to a significant extent, that country must deliver to the Fund when requested an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase

in the gold or Unitas value of the Fund's holdings. The same provisions shall also apply to the Government securities of member countries held by the Fund. However this provision shall not apply to currencies acquired under III-9 (abnormal war balances).

V. Management

1- The administration of the Fund shall be vested in a Board of Directors. Each Government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their Government. Directors and alternates may be reappointed,

In all voting by the Board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following : Each country shall have 100 votes *plus* 1 vote for the equivalent of each 100,000 Unitas (I million dollars) of its quota.

Notwithstanding the approved formula for distributing voting power, no country shall be entitled to cast more than one-fourth of the aggregate votes regardless of its quota. All decisions, except where specifically provided otherwise, shall be made by a majority of the member votes.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an *ex–officio* member of of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for re-election, and may be removed for cause at any time by the Board.

The Managing Director of the Fund shall select the operating staff in accordance with regulations established

by the Board of Directors. Members of the staff may be made available upon request of member countries for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be an *ex-officio* member of the Executive Committee. The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.

5. The Board of Directors may at any meeting, by four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. The Board may not delegate, except to the executive Committee, any authority which can be exercised only by a four-fifths vote.

Delegated powers shall be exercised only until the next meeting of the Board, and in a manner consistent with the general policies and practices of the Board.

6. The Board of Directors may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.

7. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting

one-fourth of the votes, the chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

8. A country failing to meet its obligations to the Fund may be suspended provided a majority of the member votes so decide. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of two years the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member votes.

Any country may withdraw from the Fund by giving notice, and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund. A country which is dropped or which withdraws from membership shall have returned to it an amount in its own currency equal to its contributed quota, *plus* other obligation of the Fund to the country and *minus* any sum owed by that country to the Fund.

Any losses of the Fund may be deducted *pro rata* from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. The Fund shall have five years in which to liquidate its obligation to such a country. When any country is dropped or withdraws from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:

(*a*) 50 percent to reserves until the reserves are equal to 10 percent of their aggregate quotas of the Fund.

(*b*) 50 percent to be divided each year among the members in proportion to their quotas. Dividends

distributed to each country shall be paid in its own currency or in Unitas at the discretion of the Fund.

VI Policies of Member Countries

Each member country of the Fund undertakes the following:

I. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls cover foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose any additional restrictions without the approval of the Fund. The Fund may make representations to member countries that conditions are favourable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to such representations.

3. To co-operate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Co-operation shall include, upon recommendation by the Fund, measures that can appropriately be taken:

(*a*) Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing retrictions on the export of capital except with the permission of the Government of that country and the Fund;

(*b*) To make available to the Fund or the Government of any member country full information on all property in the form of deposits, securities and investments of the nationals of that member country; and

(*e*) Such other measures as the Fund shall recommend.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements, nor engage in multiple currency practices, except with the approval of the Fund.

5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

6 To furnish the Fund with all information it needs for its operations and to furnish such reports as it may require in the form and at the times requested by the Fund.

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.

APPENDIX III.

THE CANADIAN PLAN

DRAFT PROPOSALS FOR AN INTERNATIONAL EXCHANGE UNION

I. Purposes of the Union

1. To provide for stability of exchange rates and to provide an orderly method for their determination.

2. To provide a convenient clearing mechanism to settle balances in international payments.

3. To provide to all countries access to foreign exchange resources in order to reduce the danger that economic and commercial policies in the period immediately after the war will be largely determined by a shortage of foreign exchange and to enable countries thereafter to be guided in their economic and commercial policies by long-run considerations when faced with a temporary reduction of foreign markets.

4. To aid in the achievement of international equilibrium by measures designed to prevent excessive short-term borrowing through the Union or the excessive accumulation of uninvested foreign surpluses.

5. To contribute to the re-establishment and development of a multilateral trading system and to the elimination of discriminatory trading and currency practices.

II. Resources of the Union

Member countries shall agree to make the following resources available to the Union:

1. A capital subscription to the amount of the quota assigned to each member country, the aggregate of such quotas to be $8,000 million.

Detailed provisions
regarding 1—Quotas and Capital Subscription

(a) *Determination of quotas*

The quota for each member country shall be determined by a formula which will give due regard to factors such as internatinoal trade, national income, and holdings of gold and foreign exchange convertible into gold. A special assessment may be levied in any case where this formula would be inappropriate.

(b) *Payment of capital subscriptions*

The capital subscription of each member country shall be paid up in full on or before the date set by the Governing Board of the Union on which the Union's operations are to begin. Each member country shall pay in at least 15 per cent of its quota in gold and the balance in national currency; a country may substitute gold for national currency in meeting its quota requirements. The Union may make such arrangements as it deems appropriate to provide a period of time within which countries having less than $300 million in gold or foreign exchange convertible into gold in official exchange reserves may pay up their gold contribution in full, the equivalent in national currency to be paid in the interval. Notwithstanding the provisions of subsequent paragraphs, the Union shall sell foreign exchange to such member countries for the purpose of acquiring gold to pay their capital subscriptions.

c) *Change in quotas*

The Board may from time to time change the quotas of particular member countries, provided, however, that in voting on proposals to increase quotas the voting strength of each member shall be increased or decreased to take

account of the Union's net sales or purchases of the currency of each member country in accordance with the weighted voting formula set out in paragraph IX-3 below. No increase shall, however, be made in the quota of any country without the consent of the representative of the country concerned.

2. Loans to the Union, as required, in amounts not exceeding 50 per cent of the quota of each member country.

Detailed provisions
regarding 2—Loans to the Union

(*a*) *Conditions of borrowing*

The terms and conditions of loans made by member countries to the Union under the provisions of paragraph II.2 shall be set out in the rules and regulations of the Union. The Union's authority to borrow domestic currency from member countries in amounts up to 50 per cent of their quotas shall be a revolving authority. The Union shall not exercise its right to borrow until it has used its available gold resources to acquire additional supplies of the currency in question. Subject to the provisions of the preceding sentence, the Union must exercise its right to borrow when its holdings of the currency of any member country have been reduced to 10 per cent of the quota of that member country. When the Union exercises its right under the provisions of paragraph II.2 to borrow additional supplies of the currency of any member country it shall have the duty to attempt to improve its position in the currency concerned by acquiring the currency or gold from the holdings of other member countries for payment in their national currencies or in other foreign exchange they need.

(*b*) *Conditions of repayment*

The Union shall have the right to repay loans contracted under the provisions of paragraph II.2 at any time. The member country making the loan shall have the right to demand repayment in gold to the extent of the Union's gold holdings at any time and shall also have the right to demand repayment in its national currency provided that such repayment does not reduce the Union's holdings of that currency below 50 per cent of the quota of the member country. Member countries shall agree to give 30 days' notice of demand for repayment of loans made to the Union under the provisions of the present article.

III. Monetary Unit of the Union

1. The monetary unit of the Union shall be an international unit of such name as may be agreed (hereafter referred to as the Unit) and it shall consist of 1371/2 grains of fine gold. The accounts of the Union shall be kept and published in terms of the Unit.

2. The value of the Unit in terms of gold shall not be changed without the approval of four-fifths of member votes.

3. Member countries shall agree with the Union the initial values of their currencies in terms of gold or the Unit and except as provided in paragraph IV.2 below shall undertake not to alter these values without the approval of the Union.

4. Deposits in terms of the Unit may be accepted by the Union from member countries upon the delivery of gold to the Union. Such Unit deposits shall be transferable to other member countries. They shall be redeemable in gold and the Union shall maintain at all times a 100 per cent reserve in gold against all Unit deposits.

IV. Exchange Rates

1. The Union shall fix, on the basis of exchange

rates initially agreed between it and each member country, the rates at which it will buy and sell one member's currency for another's and the rates in local currencies at which it will buy and sell gold. The spread between the Union's buying and selling rates for member currencies and for gold shall not exceed 1 per cent. Except as provided in paragraph IV. 2 below, member countries shall agree not to change the initially agreed exchange rate without the approval of the Union and any country which alters the value of its currency without the consent of the Union shall be declared in default of its obligations and become subject to the penalties provided in paragraph XI.I below.

2. Notwithstanding the provisions of paragraph IV.1 above, any member country which is a net purchaser of foreign exchange from the Union (arising from other than capital account transactions) to the extent of at least 50 per cent of its quota and has so been on the average of the preceding 12 months shall be entitled to depreciate its exchange to the maximum extent of 5 per cent; provided, however, that the proivisions of this paragraph shall not apply to any country which holds independent official reserves of gold and foreign currencies freely convertible into gold in amounts exceeding 50 per cent of its quota. No country shall be entitled to repeat the exchange depreciation provided for in this paragraph without the specific approval of the Union.*

3. No change in the value of the currencies of member countries shall be permitted to alter the value of the assets of the Union in terms of gold or the Unit. Thus, if the Union approves a reduction in the value of the currency of a member country, or if a country

*In the course of conversations in Washington the Canadian experts expressed the view that it might be desirable to provide for a somewhat greater permissive range of depreciation in exchange rates with somewhat different safeguards than those incorporated in paragraph IV.2. The following is a draft of a paragraph which might be substituted for paragraph IV.2 of the text :

depreciates its exchange under the provisions of the preceding paragraph, or if a significant depreciation in the value of the currency of a member, as determined by quotations on the exchange markets of other member countries, has in fact occurred, that country must on request deliver to the Union an amount of its local currency equal to the decrease in the value of the currency held by the Union. Likewise, if the currency of a particular country should appreciate, the Union must return to that country an amount in the currency of that country or in gold equal to the resulting increase in the value of the Union's holdings.

V. Operations of the Union—Provisions of Special Applicability to Deficit Countries

1. The Union shall have the power to sell to the Treasury of any member country (or exchange fund or central bank acting as its agent for the purpose) at the rate of exchange established by the Union, currency of any country which the Union holds, subject to the following provisions:

(a) Without special permission, no country shall be a net purchaser of foreign exchange from the Union except for the purpose of meeting an adverse balance of payments on current account

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"Notwithstanding the provisions of paragraph IV,1 above, any member country which has had an adverse balance of payments on current account during a two year period of such magnitude that it has utilised, to cover this deficit : 50 per cent of its independent gold and foreign exchange reserves and is in addition, a net purchaser of foreign exchange from the Union to the extent of 50 per cent of its quota shall be entitled to depreciate its exchange rate to the maximum extent of 10 per cent. provisions of this paragraph shall only be applicable once in respect of each member country unless the specific approval of the Union has been obtained Any member country intending to depreciate its exchange rate under the provisions of this paragraph shall inform the management of the Union in advance and shall afford it an opportunity to make such observations as it deems appropriate before taking such action.

and the Union may at any time limit the amounts of foreign exchange to be sold to any member country which is permitting significant exports of capital while having an adverse balance of payments on current account.

Detailed provisions

regarding (a)—Restriction of Right of Deficit Countries to purchase Foreign Exchange to amounts required to meet an Adverse Balance of Payments on Current account.

(i) A country shall be regarded as a net purchaser of foreign exchange if as a result of the Union's purchases and sales of currencies the Union's holdings of its currency rise above the amount originally provided to the Union by way of capital subscription.

(ii) The Union may require any member country to furnish at periodic intervals statistics of its balance of international payments on current account and on capital account and statistics of gold and foreign exchange holdings, public and private. Each such member country shall agree to furnish officers of the Union with detailed explanations of the basis on which such statistics are computed. If at any time the Governing Board has reason to believe that an outflow of capital from any member country is resulting directly or indirectly in net purchases of foreign exchange by that country from the Union, it shall have the right to request a control of outward capital movements as condition of making additional sales of foreign exchange to such country. Without limiting the generality of the foregoing, the Union shall normally require any member country which has been a net purchaser of foreign exchange to the extent of 25 per cent of its quota to impose restrictions on outward capital movements if none exist.

(iii) In considering applications from countries which have been net purchasers of foreign exchange from the Union for the special permission referred to in paragraph V.1 (a) to purchase foreign exchange for purposes other than the meeting of an adverse balance of payments on current account, the Governing Board shall give careful attention to applications for foreign exchange to facilitate the adjustment of foreign debts where this is deemed to be desirable from the point of view of the general economic situation and shall also give special attention to applications for foreign exchange by member countries not in default of their foregin obligations for the purpose of maintaining contractual principal payments on foreign debt.

(b) In order to promote the most effective utilization of existing stocks of gold and foreign exchange no member country shall have the right to be a net purchaser of foreign exchange from the Union so long as that country's holdings of gold and foreign currencies freely convertible into gold (including private as well official holdings) exceed its quota.

Detailed provision

regarding (b)—Restriction of Right of Countries holding large Independent Gold and Foreign Exchange Reserves to purchase Foreign Exchange from the Union.

In interpreting this provision the Governing Board shall give special consideration to the position of certain Asiatic countries where gold has long been used as private treasure.

(c) In general, the Union shall have the power to sell foreign exchange for domestic currency to member countries up to 200 per cent of the quota of each such member country. Net sales

of foreign exchange shall not exceed 50 per cent of the quota of each member country during the first year and the cumulative net sales shall not exceed 100 per cent, 150 per cent or 200 per cent during the first two, three and four years of the operation of the Union.

Detailed provision

regarding (c)—Restriction of Sales of Foreign Exchange to Specified Limits.

On special vote of the Governing Board, in which voting strength shall be weighted to allow for the Union's net purchases and sales of each member country's currency in accordance with the provisions described in paragraph IX.3 below, the Union may purchase any currency in excess of these limits provided that (a) the country whose currency is being acquired by the Union agrees to adopt and carry out measures recommended by the Union to correct the disequilibrium in its balance of payments, or (b) it is the view of the Governing Board that the country's prospective balance of payments is such as to warrant the expectation that the excess currency holdings of the Union can be disposed of in a reasonable time.

(d) In order to promote the most effective utilization of existing stocks of gold and foreign exchange, the Union may, as a condition of making further sales of foreign exchange to any member country which would bring its net purchases to an amount in excess of 50 per cent of its quota, require such country to sell the Union, for domestic currency, appropriate amounts of any reserves it (or its residents) may hold of gold or foreign exchange acceptable to the Union.

(e) Notwithstanding the provisions of paragraph (c) above, whenever a member country is

exhausting its quota more rapidly than is warranted in the judgment of the Governing Board, the Board may make such recommendations to that country as it thinks appropriate with a view to correcting the disequilibrium, and may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Union.

2. A charge of 1 per cent per annum payable in gold shall be levied against member countries on the amount of their currency held by the Union in excess of the quotas of such countries.

VI. Operations of the Union—Provisions of Special Applicability to Surplus Countries

1. In order to promote the most effective utilization of the available and accumulating supply of gold and foreign exchange resources of member countries, each member country shall, on request of the Union, sell to the Union, for its local currency or for foreign currencies which it needs, all gold and foreign exchange it acquires in excess of the amounts held immediately after joining the Union.

Detailed provision
regarding 1—Accumulating Supplies of Gold and Foreign Exchange.

For the purpose of this provision, only free foreign exchange and gold are considered. Each member country shall agree to furnish the Union with periodic reports of gold and foreign exchange holdings, public and private.

2. When the Union's operations have resulted in net sales of the currency of any member country to the extent of 75 per cent of the quota of that country the Union may, in order to increase its resources of the currency in question, attempt to arrange, in co-operation with such agencies as may be established to promote international investment, with the member country a

program of foreign capital investment (or repatriation) and may sell foreign exchange to facilitate such capital movements.

3. When the Union's holdings of the currency of a member country are being exhausted more rapidly than is warranted in the judgment of the Governing Board, the Board may make a report on the situation. Without restricting the generality of the foregoing, whenever the Union's operations have resulted in net sales of the currency of any member country to the extent of 85 per cent of the quota of that country, the Union has the authority and the duty to render to the country a report embodying an analysis of the causes of the depletion of its holdings of the currency and recommendations appropriate to restore the equilibrium of the international balances of the country concerned. Such recommendations may relate to monetary and fiscal policies, exchange rate, commercial policy and international investment.

Detailed provision

regarding 3—Report on Countries whose Currency is becoming Scarce

The Board member of the country in question shall be a member of the Union Committee appointed to draft the report. The report shall be sent to all member countries and, if deemed desirable, made public.

4. The Union shall have the right at any time to enter into arrangements with any member country to borrow additional supplies of its currency on such terms and conditions as may be mutually satisfactory.

5. The Union shall have the right at any time to enter into special arrangements with any member country for the purpose of providing an emergency supply of the currency of any other member country on such terms and conditions as may be mutually satisfactory.

6. Whenever it becomes apparent to the Governing Board that the anticipated demand for any currency may

soon exhaust the Union's holdings, the Governing Board shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution together with suggestions for helping to equate the anticipated demand and supply.

Detailed provisions

regarding 6—Rationing of Scarce Currencies

(a) The provisions of paragraph VI.6 shall come into force only after the Union has exercised in full its right under paragraph II.2 to borrow additional supplies of the currency of the member country and after the Union has taken such further steps to increase its supply of this currency as it has deemed appropriate and found possible.

(b) The provisions of paragraph V.I (c) shall, if necessary, be restricted by the duty of the Union to assure an appropriate distribution among various members of any currency the Union's supply of which is being exhausted.

(c) In rationing its sales of any scarce currency the Union shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the various countries making the request for the scarce currency.

(d) Member countries shall agree that restriction imposed by other member countries on the importation of goods from a country whose currency is being rationed by the Union shall, for the duration of such rationing, not be regarded as constituting an infraction of the most-favoured nation obligations of commercial treaties except in the case of countries holding official reserves of gold and the currencies of

member countries in amounts exceeding 50 per cent of their quotas.*

7. Whenever the Governing Board has, under the provisions of the preceding paragraph, steps to ration the Union's supply of the currency of any member country, it may require the remaining member countries to prevent the sale by their residents of each other's currencies, including bills of exchange, in the country whose currency is being rationed and to prevent the purchase by their residents of the rationed currency through the exchange markets, of non-member countries. In addition, whenever the Board has taken steps to ration the Union's supply of the currency of any member country, it shall have the duty to re-examine the prevailing exchange rates and to recommend such changes as it may regard as appropriate to the changed circumstances.

VII. Powers of the Union—General

1. The Union shall have the powers to take such actions as are required to carry out the operation enumerated in the preceding paragraphs. For greater clarity, the Union shall have the power to buy sell and hold gold, currencies and government securities of member countries; to accept deposits and to earmark gold; to issue its own obligations and to discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of funds and gold.

Detailed provision

regarding I—General Powers of the Union

Member countries agree that all of the Union's local currency holdings shall be free from any restrictions as to their use for payments within the country concerned.

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*This proposal will clearly have to be reviewed in the light of such general arrangements as may be made regarding international commercial policy and co-ordinated with those arrangements.

2. When the Union's holdings of the local currency of a member country exceed the quota of that country the Union shall have the power to resell to the member country, upon its request, the Union's excess holdings of its currency for gold or acceptable foreign exchange.

3. The Union shall have the power to invest any of its currency holdings in government securities of the country of that currency, provided that the Board representative of the country concerned approves.

4. The Union shall have the power to buy and sell currencies of non-member countries, but shall not normally hold the currencies of non-member countries beyond 60 days after the date of purchase.

5. The Union shall have the power to levy upon member countries a prorata share of the expenses of operating the Union, such levy to be made, however, only to the extent that the earnings of the Union are inadequate to meet its current expenses.

6. The Union shall make a service charge of one-quarter per cent on all gold transactions.

7 In conducting its own operations the Union shall have the power to deal only with or through (a) the Treasuries, exchange funds or fiscal agents of governments (b) central banks, with the consent of the member of the Board representing the country in question, and (c) any international banks owned predominantly by member countries. The Union may, nevertheless, with the approval of the member of the Board representing the country concerned, sell its own securities directly to the public or to institutions of member countries.

8. The Union shall have the power and the duty to co-operate with such other institutions of an international character as may exist or be established to deal with matters of international concern, including but not restricted to international investment and commercial policy.

VIII. Abnormal Wartime Balances

During the first two years of operation the Union shall have the right to purchase abnormal wartime balances held by member countries in other member countries for the national currency of the country selling such balances or for foreign exchange needed to meet current account deficits in such country's balance of international payments, in amounts not exceeding in the aggregate 5 per cent of the quotas of all member countries At the end of two years of operation the Governing Board shall propose a plan for the gradual further liquidation, in whole or in part, through the Union, of abnormal wartime balances lying to the credit of member countries in other member countries and other financial indebtedness of a similar character. If the Governing Board feels unable to recommend that the Union's resources be used for this purpose it shall have the duty to propose some other method by which the problem can be considered.

IX. Voting Power

1. Each member country shall have 100 votes plus one vote for the equivalent of each 100,000 Units of its quota.

2. All decisions, except where specifically provided otherwise, shall be made by majority of the member votes.

3. Notwithstanding the provisions of paragraph I above, in any vote on a proposal to increase the quota of any member country, member countries shall acquire one additional vote for 100,000 Units of its contribution to the resources of the Fund (by way of original capital subscription or by way of loans made under the provisions of paragraph II.2) which has been utilized, net, on the average of the preceding year by the Union for sale to other member countries; and member countries shall lose one vote for each 100,000 Units of their net utilization of the resources of the Union on the average of the preceding year.

X. Management

1. The administration of the Union shall be vested in a Governing Board. Each government shall appoint a representative and an alternate who shall serve on the Board for a period of three years subject to the pleasure of their government. Representatives and alternates may be re-appointed.

2. The Governing Board shall select a Governer of the Union and one or more assistants. The Governor shall become an ex officio member of the Board and shall be chief of the operating staff of the Board. The Governor and his assistants shall hold office for five years and shall be eligible for re-election and may be removed for cause at any time by the Board.

3. The Governor of the Union shall select the operating staff in accordance with regulations established by the Governing Board. Members of the staff may be made available upon request of member countries or of other institutions of an international character for consultation in connection with economic problems and policies.

4. The Governing Board shall appoint from among its members an Executive Committee to consist of not fewer than eleven members. The Chairman of the Board shall be the Chairman of the Executive Committee. Meetings of the Executive Committee shall be held at least once every two months and more frequently if the Executive Committee shall so decide.

5. The Governing Board shall hold an annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes the Chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

6. Net profits earned by the Union shall be distributed in the following manner:

(a) 50 per cent to reserves until the reserves are equal to 10 per cent of the aggregate quotas of the Union;

(b) 50 per cent to be divided each year among the members in proportion to their quotas.

XI. Withdrawal and Expulsion from the Union

1. A country failing to meet its obligations to the Union may be suspended provided a majority of the member votes so decides. While under suspension the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Union. At the end of one year the country shall be automatically dropped from membership unless it has restored to good standing by a majority of the member votes.

2. Any country which has been a net purchaser of foreign exchange from the Union may withdraw from the Union by giving notice and its withdrawal shall take effect one year from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice such country shall be subject to the same obligations as any other member of the Union.

3. Any country which has not been a net purchaser of foreign exchange from the Union may withdraw from the Union by giving notice. During the interval between notice of withdrawal and the taking effect of notice such country shall be subject to the same obligations as any other member of the Union; except, however, that a country which has given notice of withdrawal shall be required to make loans to the Union under the provisions of paragraph II.2 above.

4. A country which is dropped or which withdraws from membership shall have returned to it an amount in its own currency equal to its contributed quota plus other obligations of the Union to the country and minus any sums owed by that country to the Union. The Union

shall have 5 years in which to liquidate its obligation to such country.

XII. Policies of Member Countries

In addition to the obligations assumed under the preceding paragraphs, each member country shall undertake the following:

1. To maintain by appropriate action the exchange rates initially agreed with the Union on the currencies of other countries and not to alter exchange rates except under the provisions of paragraph IV.2 above, or with the consent of the Union and only to the extent and in the direction approved to fluctuate within a range not exceeding the spread fixed by the Union itself for its own purchases and sales of foreign exchange.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions on foreign exchange transactions, other than those required effectively to control capital movements, with other member countries; and not to impose any additional restrictions, except for the purpose of controlling capital movements, without the approval of the Union.

Detailed provision

regarding 2—Abandonment of Exchange Control other than on Capital Movements

The Union may make representations to member countries that conditions are favourable for the abandonment or relaxation of foreign exchange restrictions other than those required effectively to control capital movements and each member country shall agree to give consideration to such representations.

3. To co-operate effectively with other member countries when such countries, with the approval of the Union, adopt or continue controls for the purpose of regulating international movements of capital.

Detailed provisions

regarding 3—Co-operation in Enforcing Approved Exchange Controls on Capital Movements

Co-operation shall include, upon recommendation by the Union, measures that can appropriately be taken

(*a*) not to accept or permit acquisitions of deposits, socurities or investments by residents of any member country imposing restrictions on the export of capital except with the permission of the government of that country and the Union ;

(*b*) to make available to the Union or to the government of any member country full information on all property in the form of deposits, securities and invesments of the residents of that country ; and

(*c*) such other measures as the Union may recommend.

4. Not to enter into any new bilateral foreign exchange clearing arrangements nor engage in multiple currency practices except with the approval of the Union.

5. To give careful consideration to the views of the Union on existing or proposed monetary or economy policy the effect of which would be to cause a serious disequlibrium in the balance of payments of the country adopting such policy or of other countries.

6. To furnish the Union with all information it needs for its operations and to furnish such reports as it may require in the forms and at the times requested by the Union.

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Union and to facilitate the activities of the Union.

Appendix IV.

THE REVISED AMERICAN PLAN

(from The New York Times, Friday August 20, 1943)

Following is the text of the Treasury Department's summary of its revised proposal for an international Stabilization Fund:

I. Purpose of the Fund

The United Nations and the countries associated with them recognize, as declared in the Atlantic Charter the need for the fullest cooperation among nations with the object of securing economic advancement and rising standards of living for all. They believe that attainment of these objectives will be faciliated by international monetary cooperation. Therefore it is proposed that there be established an international stabilization fund with the following purposes:

1. To help to stabilize the foreign exchange rates of the currencies of member countries.

2. To reduce the use of such foreign exchange restrictions and discriminatory foreign exchange practices as hamper world trade.

3. To help to create conditions under which the smooth flow of foreign trade and of productive capital will be fostered.

II. Composition of the Fund

The fund shall amount to at least 5 billion dollars contributed on the basis of quotas determined by an appropriate formula. The quota of a country cannot be increased without its consent.

2. Each country shall pay in gold 50 per cent of its quota and the remainder in local currency. A country

with inadequate gold holdings may have its gold contribution reduced and a country may substitute some government securities (redeemable at par) for local currency.

3. The resources of the fund shall be used exclusively for the benefit of the member countries.

III. Monetary Unit of the Fund

1. The monetary unit of the fund shall be the unitas, equal in value to $137\frac{1}{7}$ grains of fine gold value of the unitas shall be made except with the approval of 85 per cent of the member votes.

2. The accounts of the fund shall be kept and published in terms of unitas. No change in exchange rates shall be permitted to alter the value of the assets of the fund.

IV Exchange Rates

1. Initial rates of Exchange for member currencies shall be based upon their value in dollars on July 1, 1943. If such a rate is clearly inappropriate, the initial rate shall be determined by consultation between the country and the fund.

2 When essential to the correction of fundamental disequilibrium, exchange rates may be changed only with the approval of three-fourths of the member votes including the countries concerned. Because of the extreme uncertainties of the immediate post-war period, such provision is made for adjusting exchange rates during the first three years.

V. Powers and Operations

1. The fund may sell to any member country foreign exchange required to meet an adverse balance of payments predominantly on cnrrent account. One-half of such exchange shall be paid for with gold or acceptable foreign exchange.

2. The fund's total holdings of the currency of any member country shall not exceed its quota by more than

100 per cent, except with the specific approval of the board of directors, and provided satisfactory measures are being taken to correct the disequilibrium.

3. When a member country is preventing or unduly delaying a sound balance in its international accounts, the fund may place conditions upon additional sales of foreign exchange to that country. The fund may also require the country to deposit gold or other suitable collateral.

4. When the fund's holdings of the currency of a member country become excessively small, the fund shall render a report to that country. The fund shall also inform member countries of the probable supply of the currency and of a proposed method for its equitable distribution.

5. Each member country agrees that it will offer to sell to the fund, for its local currency or for foreign exchange which it needs, one-half of the gold and foreign exchange it acquires in excess of its official holdings at the time it became a member of the fund.

6 During the first two years the fund may get from the governments of member countries blocked balances held in other member countries, not exceeding in the aggregate 10 per cent of the quotas. At the end of two years the fund shall propose a plan for the gradual further liquidation of blocked balances.

7. The fund may levy a charge on the amount of currency held by the fund in excess of the quota of a country. If the fund finds it necessary to borrow currency to meet the demands of members, an additional charge shall be made sufficient to cover the costs of borrowing.

8. The fund shall deal only with member governments and their fiscal agents and not intrude in the customary channels for conducting international commerce and finance.

VI. Management

1. The administration of the fund shall be vested

in a board of directors consisting of one director and alternative appointed by each member government. The board shall appoint an executive committee of not less than eleven of its members.

2. Each country shall have 100 votes plus one vote for each Million dollars of quota. No country shall cast more than one-fifth of the aggregate basic votes.

3. In voting on the sale of foreign exchange, the votes of creditor countries shall be increased and those of debtor countries decreased. In voting on proposals to suspend or restore members, each country shall cast one vote.

4. Any country may withdraw from the fund by giving notice of one year. A country failing to meet its obligations to the fund may be suspended by a majority of the member countries.

VII. Policies of member countries

Each member country of the fund undertakes:

1. To maintain by appropriate action exchange rates established by the fund and not to alter exchange rates except as provided above.

2. To abandon restrictions (except on capital transfers) over foreign exchange transactions with other member countries, and not to impose additional restrictions without the approval of the fund.

3. Not to enter upon any new bilateral clearing arrangements or engage in multiple currency practices which retard the growth of world trade or the international flow of productive capital.

4. To give consideration to the views of the fund on any monetary or economic policy, the effect of which would be to bring about a serious disequilibrium in the balance of payments of other countries.

Appendix V.

THE ANGLO AMERICAN JOINT PLAN.

JOINT STATEMENT BY EXPERTS ON THE ESTABLISHMENT OF AN INTERNATIONAL MONETARY FUND.

Sufficient discussion of the problems of international monetary co-operation has taken place at the technical level to justify a statement of principles. It is the consensus of opinion of the experts of the United and Associated Nations who have participated in these discussions that the most practical method of assuring international monetary co-operation is through the establishment of an International Monetary Fund The principles set forth below are designed to constitute the basis of this Fund. Governments are not asked to give final approval to these principles until they have been embodied in the form of definite proposals by the delegates of the United and Associated Nations meeting in a formal conference.

I—Purposes and policies of the International Monetary Fund.

The Fund will be guided in all decisions by the purposes and policies set forth below—

(1) To promote international monetary co-operation through a permanent institution which provide machinery for consultation on international monetary problems.

(2) To facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and of real income, which must be a primary object of economic policy.

(3) To give confidence to member countries by making the resources of the Fund available to them under adequate safeguards thus giving members the time to correct

maladjustments in their balance of payments without resorting to measures destructive to national or international prosperity.

(4) To promote exchange stability, to maintain orderly exchange arrangements among member countries and to avoid competitive exchange depreciation.

(5) To assist the establishment of multilateral payment facilities on current transactions among member countries and the elimination of foreign exchange restrictions which hamper the growth of world trade.

(6) To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

II—Subscription to the Fund.

(1) Member countries shall subscribe in gold and in their local funds amounts (quotas) to be agreed, which will amount altogether to about $8 billion if all the United Nations and the Associated Nations subscribe to the Fund (corresponding to about $10 billion for the world as a whole.)

(2) Quotas may be revised from time to time but changes shall require four fifths vote and no member's quota shall be changed without its assent.

(3) The obligatory gold subscription of a member country shall be fixed at 25 per cent. of its subscription (quota) or 10 per cent. of its holdings of gold and gold-convertible exchange, whichever is the smaller.

III—Transaction with the Fund.

(1) Member countries shall deal with the Fund only through their Treasury, Central Bank, Stabilisation Fund, or other fiscal agencies. The Fund's account in a member's currency shall be kept at the Central Bank of the member country.

(2) A member shall be entitled to buy another member's currency from the Fund in exchange for its own currency on the following conditions—

(a) the member represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund;

(b) the Fund has not given notice that its holdings of the currency demanded have become scarce, in which case the provisions of VI below come into force;

(c) the Fund's total holdings of the currency offered (after having been restored, if below that figure, to 75 per cent. of the member's quota) have not increased by more than 25 per cent. of the member's quota during the previous twelve months, and do not exceed 200 per cent. of the quota.

(d) the Fund has not previously given appropriate notice that the member is suspended from making further use of the Fund's resources on the ground that it is using them in a manner contrary to the purposes and policies of the Fund, but the Fund shall not give such notice until it has presented to the member concerned a report setting forth its views and has allowed suitable time for a reply.

The Fund may in its discretion and on terms which safeguard its interests waive any of the conditions above.

(3) Operations on the Fund's account will be limited to transactions for the purpose of supplying a member country, on the member's initiative, with another members' currency in exchange for its own currency or for gold. Transactions provided for under (4) and (7) below are not subject to this limitation.

(4) The Fund will be entitled at its option, with a view to preventing a particular member's currency from becoming scarce—

(a) to borrow its currency from a member country;

(b) to offer gold to a member country in exchange for its currency.

(5) So long as a member country is entitled to buy another member's currency from the Fund in exchange for its own currency, it shall be prepared to buy its own currency from that member with that member's currency or with gold. The requirement does not apply to currency subject to restrictions in conformity with IX (3) below or to holdings of currency which have accumulated as a result of transactions of a current account nature effected before the removal by the member country of restrictions on multilateral clearing maintained or imposed under X (2) below.

(6) A member country desiring to obtain, directly or indirectly, the currency of another member country for gold is expected, provided it can do so with equal advantage, to acquire the currency by the sale of gold to the Fund. This shall not preclude the sale of newly mined gold by a gold producing country on any market.

(7) The Fund may also acquire gold from member countries in accordance with the following provisions;

(a A member country may repurchase from the Fund for gold any part of the latter's holdings of its currency.

(b) So long as a member's holdings of gold and gold-convertible exchange exceed its quota the Fund in selling foreign exchange to that country shall require that one-half of the net sales of such exchange during the Fund's financial year be paid for with gold.

(c) If at the end of the Fund's financial year a member's holdings of gold and gold-convertible exchange have increased, the Fund may require up to one-half of the increase to be used to repurchase part of the Fund's holdings of its currency, so long as this does not reduce the Fund's holdings of a member's currency below 75 per cent. of its quota, or the member's holdings of gold and gold-convertible exchange below its quota.

IV—Par Values of Member Currencies

(1) The par value of a member's currency shall be agreed with the Fund when it is admitted to membership, and shall be expressed in terms of gold. All transaction between the Fund and members shall be at par, subject to a fixed charge payable by the member making application to the Fund, and all transactions in member currencies shall be at rates within an agreed percentage of parity.

(2) Subject to (5) below, no change in the par value of a member's currency shall be made by the Fund without the country's approval. Member countries agree not to propose a change of the parity of their currencies unless they consider it appropriate to correct a fundamental disequilibrium. Changes shall be made only with the approval of the Fund, subject to the provisions below.

(3) The Fund shall approve a requested change in the par value of a member's currency, if it is essential to correct a fundamental disequilibrium in particular, the Fund shall not reject a requested change, necessary to restore equilibrium, because of the domestic, social or political policies of the cou try applying for a change. In considering a requested change, the Fund shall take into consideration the extreme uncertainties prevailing at the time the parities of currencies of member countries were initially agreed upon.

(4) After consulting the Fund, a member country may change the established parity of its currency, provided the proposed change inclusive of any previous change since the establishment of the fund, does not exceed 10 per cent. In the case of application for a further change, not covered by the above and not exceeding 10 per cent, the Fund shall give its decision within two days of receiving the application, if the applicant so requests.

(5) An agreed uniform change may be made in the gold value of member currencies provided every member country having 10 per cent or more of the agreement quotas approves.

V—Capital Transactions

(1) A member country may not use the Fund's resources to meet a large or sustained outflow of capital, and the Fund may require a member country to exercise control to prevent such use of the resources of the Fund. This provision is not intended to prevent the use of the Fund's resources for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking and other business. Nor is it intended to prevent capital movements which are met out of a member country's own resources of gold and foreign exchange, provided such capital movements are in accordance with the purposes of the Fund.

(2) Subject to VI below, a member country may not use its control of capital movements to restrict payments for current transactions or to delay unduly the transfer of funds in settlement of commitments.

VI—Apportionment of Scarce Currencies

(1) When it becomes evident to the Fund that the demand for a member country's currency may soon exhaust the Fund's holdings of that currency, the Fund shall so inform member countries and propose an equitable method of apportioning the scarce currency. When a currency is thus declared scarce, the Fund shall issue a report embodying the causes of the scarcity and containing recommendations designed to bring it to an end.

(2) A decision by the Fund to apportion a scarce currency shall operate as an authorisation to a member country, after consultation with the Fund, temporarily to restrict the freedom of exchange operations in the affected currency, and in determining the manner of restricting the demand and rationing the limited supply among its nationals the member country shall have complete jurisdiction.

VII—Management

(1) The Fund shall be governed by a Board on which each member will be represented and by an Executive

Committee. The Executive Committee shall consist of at least nine members including representatives of the five countries with the largest quotas.

(2) The distribution of voting power on the Board of Directors and Executive Committee shall be closely related to quotas.

(3) Subject to II (2) and IV (5) all matters shall be settled by majority of votes.

(4) The Fund shall publish at short intervals a statement of its position showing the extent of its holdings of member currencies and gold and its transactions in gold.

VIII—Withdrawal

(1) A member country may withdraw from the Fund by giving notice in writing.

(2) The reciprocal obligations of the Fund and the country are to be liquidated within a reasonable time.

(3) After a member country has given notice in writing of its withdrawal from the Fund the Fund may not dispose of its holdings of the country's currency except in accordance with the arrangements made under (2) above. After a country has given notice of withdrawal, its use of the resources of the Fund is subject to the approval of the Fund.

IX—Obligations of Member Countries

(1) Not to buy gold at a price which exceeds the agreed parity of its currency by more than a prescribed margin and not to sell gold at a price which falls below the agreed parity by more than a prescribed margin.

(2) Not to allow exchange transactions in its markets in the currencies of other members at rates outside a prescribed range based on the agreed parities.

(3) Not to impose restrictions on payments for current international transactions with other member countries (other than those involving capital transfers or in accordance with VI above) or to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

X - Transitional Arrangements

(1) Since the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war, the agreement of a member country to III (5) and IX (3) above shall not become operative until it is satisfied as to the arrangements at its disposal to facilitate the settlements of balance of payments differences during the early post-war transition period by means which will not unduly encumber its facilities with the Fund.

(2) During this transition period member countries may maintain and adapt to changing circumstances exchange regulations of the character which have been in operation during the war, but they shall undertake to withdraw, as soon as possible, by progressive stages any restrictions which impede multilateral clearing on current account. In their exchange policy they shall pay continuous regard to the principles and objectives of the Fund; and they shall take all possible measures to develop commercial and financial relations with other member countries which will facilitate international payments and the maintenance of exchange stability.

(3) The Fund may make representations to any member that conditions are favourable to the withdrawal of particular restrictions or for the general abandonment of restrictions inconsistent with IX (3) above. Not later than three years from the coming into force of the Fund, any member still retaining any restrictions inconsistent with IX (3) shall consult the Fund as to their further retention.

(4) In its relations with member countries, the Fund shall recognise that the transition period is one of change and adjustment and in deciding on its attitude to proposals presented by members it shall give the member country the benefit of any reasonable doubt.

APPENDIX VI

World's first International Monetary Agreement

(*Summary of Text*)

The following is a summary of the final draft of the proposed Fund. The purposes of the International Monetary Fund as set forth in Article of the text are "(1) to promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems; (2) to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income, and to the development of the production resources of all members as primary objectives of economic policy; (3) to promote exchange stability, to maintain orderly exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation; (4) to assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade; (5) to give confidence to members of making the Fund's resources available to them under adequate safeguards, thus providing them with the opportunity to correct maladjustment in their balance of payments without resorting to measures destructive of national or international prosperity; (6) in accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payment of members."

Article Two sets forth the conditions of membership. It provides that the "original members..........shall be those.........countries represented at the conference whose governments accept membership before December 21, 1945. Membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund." The proposal

drafted by the conference will be submitted to the legislative bodies of the countries represented for legal ratification. Agreement of the delegates at the conference to the proposal does not bind their governments.

Article Three of the text deals with quotas and subscriptions to the 8,806 million dollar Fund. Quotas for the countries represented at the Bretton Woods conference have been set and are part of the final Fund document. The plan provides, further, that the "quotas of other members shall be determined by the Fund........
The Fund shall at intervals of five years review and, if it deems appropriate, propose an adjustment of the quotas; it may also.........consider at any other time the adjustment of any quota at the request of the member concerned. A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned." The article says "each member shall pay in gold as a minimum the smaller of (1) 25 per cent of its quota or (2) ten per cent of its net official holdings of gold and dollars as on the date...the Fund notifies members...it will shortly be in a position to begin exchange transactions." Each member shall furnish to the Fund the data necessary to determine its net official holdings of gold and U. S. dollars. "Each member...shall pay the balance of its quota in its own currency." The text contains a clause providing for an alternative gold figure agreed to by the Fund in the case of countries which by reason of enemy occupation cannot determine gold holdings accurately.

Article Four of the plan is devoted to the establishment of par values of currencies, the methods for making authorised changes in par values, members' obligations regarding changes in par values, members' obligations regarding stability of change ; and is in fact the heart of the document as it relates to currency stabilisation. The article provides that "the par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the U. S. dollar of

the weight and fineness in effect on July 1, 1944." Also "each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations." The Fund plan provides machinery for changing the par value of a member's currency only on the proposal of the member and only after consultation." The Fund plan allows for an initial ten per cent increase in par value to which the Fund shall raise no objection. Section Five of Article Four provides for further increases in this manner. For an "increase which does not exceed a further ten per cent of the initial par value, the Fund may either concur or object but shall declare its attitude within 72 hours if the member so requests." On changes not within these groups, the Fund may either concur or object but shall be entitled to a longer period of time to declare its attitude.

The plan also provides that members can make such changes in par value as do not affect the international transactions of...members of the Fund without concurrence. Article Four also outlines penalties for unauthorised changes in par value by a member. The sanctions which can be evoked are ineligibility to use the resources of the Fund or, in certain cases, expulsion from membership. In the matter of uniform changes in par value the plan provides that :"the Fund by a majority of the total voting power may make uniform, proportionate changes in the par value of the currencies of all members provided each such change is approved by every member which has a ten per cent or more total of the quotas. The par value...shall, however, not be changed under this provision if within 72 hours the member informs the Fund that it does not wish the par value of its currency to be changed by such action."

Article Five sets out methods for conducting transactions with the Fund. It says in part : "Each member shall deal with the Fund only through its treasury, central bank, stabilisation fund or other similar

fiscal agency and the Fund shall deal only with or through the same agencies." The article sets up general conditions governing the use of the Fund's resources and provides that "a member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency...when it is presently needed for making payments...consistent with the provisions of this agreement...and when the purchase would not cause the Fund's holdings of the purchasing member's currency to increase by more than 25 per cent of its quota in 12 months." The plan also provides means of waiving these and other conditions in "consideration of periodic or exceptional requirements of the member requesting the waiver."

Article Five also says : "Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report...the Fund may limit the use of its resources by the member if no reply...is received..., or if the reply is unsatisfactory the Fund may continue te limit the member's use of the Fund's resources, or may after giving reasonable notice. declare the member ineligible to use the resources of the Fund."

Article Five also sets up a system of sliding-scale charges which the Fund may levy against members based on the average daily balance of its currency held by the Fund in excess of the member's quota. The charges are at the following rates : "(1) On amounts not more than 25 per cent in excess of the quota, no charge for the first three months, one-half per cent per annum for the next nine months and thereafter an increase in the charge of one-half per cent for each subsequent year ; (2) On amounts more than 25 per cent and not more than 50 per cent in excess of the quota, an additional one-half per cent for the first year and an additional one-half per cent for each subsequent year ; (3) On each additional

bracket of 25 per cent in excess of the quota, an additional one-half per cent for the first year and an additional one-half per cent for each subsequent year." This system of fees is an important part of the Fund's operation, since the amounts involved are sizeable and are designed to discourage continuing unbalanced trends of currencies flowing into the Fund.

Article Six makes it impossible for a member to use the Fund's resources "to meet a large or sustained outflow of capital."

Article Seven is devoted to the control of scarce currencies in the Fund. It says in part: "When the Fund finds that a general scarcity of a particular currency is developing, it may so inform members and may issue a report setting forth the cause of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report." The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps: "(1) Propose to the member that.....the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from some other source......; (2) require the member to sell its currency to the Fund for gold."

Article Eight sets forth that the general obligations of Fund members are to avoid restrictions on current payments, to avoid discriminatory currency practices and to agree to the furnishing of whatever information "the Fund may require.....for its operations, including as the minimum necessary" official holdings at home and abroad by banking and financial agencies other than official agencies of (1) gold, (2) foreign exchange, production of gold, gold exports and imports, total exports and imports of merchandise, international balance of payments including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, international investment,

position of national income, price indices, buying and selling rates for foreign currencies, exchange controls, details of amounts awaiting clearance in respect of commercial and financial transactions.

Article Nine establishes the status, immunities and privileges of the Fund. It shall be immune from judicial process. It shall be immune from all taxation and custom duties.

Article Ten provides for "cooperation with......other international organisations."

Article Eleven requires member nations not to engage in any transaction with non-member nations which would be contrary to "the provisions of this agreement or the purposes of the Fund.'.

Article Twelve is devoted to the organisation and management of the Fund. The Fund shall have a board of governors, executive directors, a managing director and a staff......There shall be not less than 12 directors who need not be governors.......Five shall be appointed by the five members with the largest quotas.......Two shall be elected by the American republics not entitled to appoint directors......Five shall be elected by other members not entitled to appoint directors." Election is to be by proportional representation. The executive directors shall function in continuous session. The executive directors shall select a managing director who shall not be a governor or an executive director. The article also provides that "each member shall have 250 votes plus one additional vote for each part of its quota eqivalent to 100,000 U. S. dollars."

Article Thirteen establishes that "the principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in territories of other members."

Article Fourteen is devoted to the Fund's status in the transitional period and establishes that "the Fund is not intended to provide fascilities for relief or reconstruction or to deal with international indebtedness growing out of

the war." The article also provides for the withdrawing of exchange restrictions by members as soon as conditions are such "that they will be able in the absence of such restrictions to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund."

Article Fifteen recognises the right of members to withdraw from the Fund "at any time by transmitting a notice in writing to the Fund at its principal office." This section also traces in technical detail the settlement of accounts with members withdrawing "with reasonable dispatch and by agreement between the member and the Fund."

Article Sixteen is devoted to emergency provisions, the most important of which is that "the executive directors by unanimous vote may suspend for a period not more than [illegible]0 days the operation of the main functions of the [illegible]."

[illegible] Seventeen sets a method for amending the Fund plan "when three-fifths of the members having four-fifths of the total voting power have accepted a proposed amendment. ....."

Articles Eighteen and Nineteen are devoted to interpretation and explanation of terms.

Article Twenty establishes that "this agreement shall enter into force when it has been signed on behalf of governments having 65 per cent of the total quotas...... but in no event.....before May 1, 1945."

Scheduled "A" of the text is a table of quotas for the 44 nations at the conference.

Schedule "B" fills in details of earlier provisions on the purchase by a member of its currency, the election of executive directors, the settlement of accounts with withdrawing members, the technical details of Fund liquidation.

The final text is slightly more than 15,000 words long, covering 60 pages.—USOWI.

APPENDIX VII

Agreement reached on First International Bank

(*Summary of Text*).

Bretton Woods, N. H.—At the final plenary session before adjournment of the United Nations Monetary and Financial Conference, delegates accepted the final draft of a plan to establish the world's first International Bank for Reconstruction and Development. Delegates from 44 nations who had worked on this and other plans for the conference since July 1 were in attendance. The following is a summary of the articles of agreement on the Bank.

Article One sets forth the purpose of the bank as:

"(1) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peace time needs and the encouragement of the development of productive facilities and resources in less developed countries;

"(2) To promote private foreign investment by means of guarantees or participatians in loans and other investments made by private investors and when private capital is not available on reasonable terms to supplement private investment by providing on suitable conditions finance for productive purposes out of its own capital funds raised by it and its other resources;

"(3) To promote the long range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labour in their territories;

"(4) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first ;

"(5) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to peacetime economy.

Article Two sets forth the conditions of membership in the capital of the bank. It provides that "The original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank before December 31, 1945. Membership shall be open to other Fund members in accordance with terms prescribed by the Bank. Section Two of the article establishes that "authorised capital stock of the Bank shall be ten billion dollars in terms of U. S. dollars of the weight and fineness in effect on July 1, 1944. The capital stock shall be divided into 100,000 shares to have a par value of 100,000 dollars each, which shall be available for subscription only by members." Quotas set for the 44 nations at the conference total 8,800,000,000 dollars, leaving 1,200,000,000 for subscription by other nations. The agreement provides for an increase in capital stock when voted by a three- quarters majority of the total voting power and such increases will be made available for subscription by members on a proportional system. Section Five, Article Two sets forth that "the subscription of each member shall be divided into two parts as follows : (1) 20 per cent shall be paid or subject po call...as needed by the Bank for its operation ; (2) the remaining 80 per cent shall be subject to call by the Bank only when required to meet obligations of the Bank..." The plan provides that "payment of subscriptions...shall be made in gold or U. S. dollars and in the currencies of the members as follows : (1)...two per cent of the price of each share shall be payable in gold or U. S. dollars and when calls are made the remaining 18 per cent shall be paid in the currency of the member. (2) When a call is made..payment may be made at the option of the member either in gold, in U. S. dollars, or in the currency required to discharge the obligations... for which the call is made," The article also provides

that the two per cent payable in gold "shall be paid within 60 days of the date on which the Bank begins operations, provided that (1) any original member... whose metropoliton territory has suffered from enemy occupation or hostilities during the present war shall be granted the right to postpone payment of one-half per cent, a quarter of the payment, until five years after that date. (2) An original member whose gold reserves are seized or immobilised as a result of the war may postpone all payments until such date as the Bank shall decide."

Article Three sets forth the general provision relating to loans and guarantees. It says that "the resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike...The total amount outstanding of guarantees and participations in loans made by the Bank shall not be increased at at any time if by such increase the total would exceed 100 per cent of the unimpaired subscribed capital reserves and surplus of the Bank..." The heart of the Bank proposal is Section Four of Article Three which establishes conditions under which the Bank may guarantee or make loans. It provides that "the Bank may guarantee, participate in or make loans to any member or any political sub-division thereof, and any business, industrial and agricultural enterprise in the territories of a member subject to the following conditions : (1) When the member in whose territories the project is located is not itself the borrower, the member of the central bank, or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of interest and other charges on the loan. (2) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower. (3) A competent committee...has submitted a written report recommending the project after a careful study of the merits of the proposal. (4) In the opinion of the Bank

the rate of interest and other charges are reasonable and such rate charges and the schedule for repayment of principal are appropriate to the project. (5) In making or guaranteeing a loan the Bank shall pay due regard to the prospects that the borrower, and if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan, and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole. (6) In guaranteeing a loan made by other investors the Bank receives suitable compensation for its risk. (7) Loans made or guaranteed by the Bank shall except in special circumstances be for the purpose of specific projects of reconstruction or development."

"The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members. The bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations. In the case of loans made by the Bank the Bank, shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred."

Article Four of the act of agreement outlines the three broad ways in which the proposed Bank may make or facilitate loans which satisfy its conditions. They are : "(1) by making or participating in direct loans out of its own funds ; (2) by making or participating in direct loans out of funds raised in the market of a member or otherwise borrowed by the Bank ; (3) by guaranteeing in whole or in part loans made by private investors through the usual investment channels." The latter activity is to constitute the major operation of the Bank, accounting for 80 per cent of its resources. Twenty per cent or 2 000,000,000 dollars, plus earned surpluses,

is to be the extent of direct loans by the Bank. The balance of the article is devoted to technical provisions which make it possible for the Bank to pay borrowers in the currency needed to complete transactions in a country other than the borrowing one. In genoral, the section provides that "currencies' received by the bank... shall be changed for the currencies of other members or reloaned only with the approval of the members whose currencies are involved..." Provision is made under which the Bank may acquire currencies it needs to meet its own contractual obligations. Article Four also says: "The terms and conditions of interest and amortisation, payments, maturity, and dates of payment of each loan shall be determined by the bank...During the first ten years of the Bank's operation, the rates of commissions for guaranteeing loans shall be not less than one per cent per annum and not greater than one and one-half per cent per annum...Guarantees by the Bank shall provide that the Bank may terminate its liability...upon default by the borrower and guarantor, if any, if the Bank offers to purchase...the bonds or other obligations guaranteed...The amount of commissions received...shall be set aside as a special reserve which shall be kept available for meeting liabilities of the Bank..." Section Ten of Article Four says: "The Bank and its officers shall not interfere in the political affairs of any member nor shall they be influenced in their decisions by the political character of the member or members concerned; only economic considerations shall be relevant to their decisions and these considerations shall be weighed impartially in order to achieve the purposes of the Bank."

Article Five sets up the organisation and management of the Bank which "shall have a board of governors, executive directors, a president and such other officers and staff to perform such duties as the Bank may determine. All powers of the Bank shall be vested in the board of governors consisting of one governor and one alternate appointed by each member in such manner as it may determine...The board of governors shall hold annual meetings as may be provided for the board or

called by the executive directors..." The article also establishes voting power in this fashion : "Each member shall have 250 votes plus one additional vote for each share of stock held. The executive directors shall be responsible for the conduct of the general operations of the Bank...and shall exercise all the powers delegated to them by the board of governors...There shall be 12 executive directors who need not be governors and of whom : (1) five shall be appointed one each by the five members who have the largest number of shares ; (1) seven shall be elected according to a system of proportional representation by all the governors other than those appointed by the five members who have the largest number of share." Executive directors shall be appointed or elected every two years...The executive directors shall function in continuous session at the principal office of the Bank and shall meet as often as the business of the Bank shall require...The executive directors shall select a president who shall not be a governor or an executive director...The president shall not be a governor or an executive director...The president shall be chairman of the executive directors...and chief of the operating staff of the Bank, and shall conduct . the ordinary business of the Bank ..subject to the general control of the executive directors...There shall be an advisory council of not less than seven persons selected by the board of governors, including representatives of banking, commercial, industrial, labour and agricultural interests, and with as large a national representation as possible...The council shall advise the bank on matters of general policy...

Article Five also establishes a loan committee which "...shall include an expert selected by the...member in whose territory the loan is located, and one or more members of the technical staff of the Bank." Section Nine of the article says : "The principal office of the Bank shall be located in the territory of the member holding the greatest number of shares..." In a section covering the publication of reports and information the agreement says that "the Bank shall publish an annual report...and shall circulate to members at intervals of

three months or less a summary statement of its financial position and a profit and loss statement..."

Article Six provides for withdrawal and suspension of membership and the suspension of operations of the Bank. It says that "any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank at its principal office...Any member which ceases to be a member of the International Monetary Fund shall automatically cease after three months to be a member of the Bank...unless by three-quarters vote the Bank has agreed to allow it to remain a member... When a government ceases to be a member it shall remain liable for its direct obligations to the Bank and its contingent liabilities with respect to loans and guarantees entered into thereafter by the Bank..." The same article provides that "in an emergency the executive directors may suspend temporarily operations in respect to new loans and guarantees, pending an opportunity for further consideration and action by the board of governors......The Bank may suspend permanently its operations in respect to new loans and guarantees by vote of a majority of the governors exercising a majority of the total voting power......" Article Six then outlines in technical detail the method of valuing assets to members when two conditions have been met : "(1) all liabilities......have been discharged..; a majority of the governors...have decided to make a distribution." Such distribution is to be made according to the "proportionate share of each member based on the ratio of its shareholding to the total outstanding shares of the Bank...."

Article Seven deals in technical terms with the status, immunities and privileges of the Bank, and provides that "the Bank shall possess full judicial personality, in particular the capacity (1) to contract, (2) to acquire and dispose of immovable and movable property, (3) to institute legal proceedings..The assets of the Bank shall...be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank..

Article Eight provides that amendments may be made to the Bank agreement "when three-fifths of the members having four-fifths of the total voting power have accepted the proposed amendment...."

Article Nine deals with interpretation of provisions of the agreement and says that questions arising out of interpretation "shall be submitted to the executive directors for their decision...

Article Ten provides: "Whenever approval of any member is required before any act may be done by the Bank, except in Article Eight, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act."

Article Eleven says that "this agreement shall enter into force when it has been signed on behalf of governments whose minimum subscriptions comprise not less than 65 per cent of the total subscriptions of nations at the conference...This agreement shall remain open for signature..until December 31, 1945 for countries already assigned quotas. As soon as this agreement enters into force..each member shall appoint a governor and (the nation with the largest quota) shall call the first meeting of the board of governors.. which meeting shall make selection of provisional executive director...."

Schedule "A" of the document sets forth the quota For the 44 nations who helped draft the plan at the Bretton Woods conference.

Schedule "B" outlines the details of the proportional representation system by which executive directors shall be elected by the board of governors. The final articles of agreement on the Bank become part of the acts of the International Monetary and Financial Conference after acceptance by the plenary session. The final acts, including a plan for the International Monetary Fund, the proposed Bank and other resolutions are to be submitted to the legislative bodies of the countries for ratification. The Bank proposal in its final form contained approximately 10,000 words covering 44 pages.—USOWI.